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Parking Lot District Fiscal Management and Budgeting

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OLO Office of Legislative Oversight

Executive Summary

PARKING LOT DISTRICT FISCAL MANAGEMENT AND BUDGETING

OLO Report Number 2015-5 January 27, 2015

Montgomery County's parking lot districts (PLDs) provide a collective pool of public parking for the benefit of businesses, patrons and commuters. In lieu of providing parking on-site as required by the Zoning Ordinance, non-residential property owners in a parking lot district (PLD) may opt to pay an annual ad valorem tax to fund the construction and maintenance of public parking facilities. Montgomery County has established parking lot districts in Bethesda, Montgomery Hills, Silver Spring, and Wheaton. This report examines and evaluates PLD fiscal management and budgeting practices.

PLD Fund Policies

Fund Balance: As enterprise funds, the PLDs should generate sufficient revenue on an on-going basis to cover the debt service, operating, and capital costs of providing public parking in the four districts. The County's Fiscal Policy recognizes the need to assure that enterprise funds maintain a sufficient fund balance, stating that the County "will, through pricing, inventory control, and other management practices, ensure appropriate fund balances for its enterprise funds while obtaining full cost-recovery for direct and indirect government support." However, no PLD fund balance policy appears in any County budget document.

A 2002 memorandum to the Council's Transportation and Environment Committee stated the County Executive's policy was to maintain an unrestricted fund balance for each PLD enterprise fund of at least 50% of the projected operating expenses for the subsequent fiscal year. However, this policy statement seems to have had minimal effect on recent year budgets. For example, the current fund balance for the Bethesda PLD is only at about 12% of FY15 operating expenses and is projected to fall below zero by FY20.

Transfer of Funds: Long established County policy permits use of PLD fund for certain specified non-PLD programs. However, the County Code does not address the relative priority of using PLD funds for parking-related purposes as opposed to transferring these resources for other purposes. Moreover, no standard or policy exists to adjust the amount of annual PLD transfers to account for the availability of resources.

PLD Revenues and Expenditures

Revenues: The PLD enterprise funds receive revenue from four sources: parking fees, parking fines, property taxes, and miscellaneous revenue. The relative contribution of the four PLD revenue sources varies significantly among the four districts. In Bethesda, FY15 parking fees will provide nearly two-thirds (64%) of the PLD's revenue, more than five times the revenue raised from property taxes (12%). In contrast, parking fees will provide about half (51%) of FY15 Silver Spring PLD revenues with property taxes supplying 38% of the district's revenues.

Historically, PLD revenues have been relatively stable and predictable. However, future year PLD property tax revenue generation may soon experience significant volatility. Recent amendments to Zoning Ordinance parking requirements likely will result in additional properties becoming eligible for a PLD property tax exemption. The fiscal impact of this change is unknown as the Executive Branch does not possess adequate data to determine which properties will become eligible for the property tax exemption. As a result, PLD revenues for FY16 and beyond could vary greatly from current projections.

Expenditures: PLD enterprise fund expenditures fall into four categories: operating expenses, current revenue capital expenditures, debt service, and transfers to other funds. PLD relative spending by category varies greatly by district. The Montgomery Hills PLD expends 97% of its spending on operating expenses compared to 42% for the Bethesda PLD. Bethesda – the sole PLD with current debt service obligations – expends 29% of current year spending on capital projects.

Chapter 60 of the County Code authorizes the transfer of resources from PLD enterprise funds to support urban districts and transportation management activities. The Bethesda, Silver Spring, and Wheaton PLDs also transfer fine revenues to the Mass Transit Fund. (OLO finds the County Code to be ambiguous as to whether PLD fine revenues may be transferred to the Mass Transit Fund.) The Bethesda PLD expends 29% of its resources on transfers to other funds; the Silver Spring PLD expends 27% of its resources on transfers.

Fiscal Conditions of the PLD Enterprise Funds

OLO analyzed current year and projected six-year revenues and expenditures for each of the four PLDs and developed the following summary assessments.

- The Bethesda PLD fund faces serious structural challenges that will cause the fund to fall into deficit unless corrective actions are taken. Under current policies and practices, the fund will annually spend more than it receives in revenues, driving its already precariously low fund balance toward zero. The lack of significant fund reserves leaves the PLD incapable of absorbing an unanticipated spike in expenses or a downturn in revenue generation.

  The extent of on-going structural deficiencies in the PLD fund is masked by anticipated infusions of one-time revenues in FY16 and FY18. Moreover, a significant increase in the number of PLD property tax exemptions could further deplete revenues and exacerbate the fund's financial troubles. In the very long-term, expiration of revenue bond reserve requirements in Year 2032 will provide some relief to the fiscal condition of the PLD fund.

- The Montgomery Hills PLD currently is in sound fiscal condition.

- The Silver Spring PLD fund is the most fiscally healthy and stable of the four PLD funds. Projected PLD expenditures are well balanced with projected revenues. Moreover, the fund enjoys a high fund balance percentage that should be more than sufficient to satisfy operating and capital obligations for several years even in the event of an unexpected downturn in revenue generation. However, two factors – the possible increase in the number of PLD property tax exemptions and the disposition of outstanding MEDCO debt service costs – could reduce the Silver Spring PLD enterprise fund balance and thereby warrant a reassessment of the fund's fiscal condition.

- The Wheaton PLD has a healthy fund balance and is projected to retain a strong fund balance in future years. Current and projected future year expenditures are well balanced with revenues creating a stable fiscal standing for the PLD fund. This stability is a result, in part, of previous decisions to adjust the amount of transfers to other funds to address Wheaton PLD fund balance requirements. Wheaton redevelopment, including the construction of a new garage, will affect future year revenues and expenditures.

This report also includes a detailed comparison of the fiscal characteristics of the two largest PLDs, Bethesda and Silver Spring. The revenue structures of the Bethesda and Silver Spring PLDs differ significantly. Bethesda has a greater dependence than Silver Spring on fees; Silver Spring has a greater dependence on property taxes. Bethesda parkers pay $5.32 in fees for every dollar paid through the PLD property tax compared with only $1.35 in parking fees for each property tax dollar in Silver Spring. The disparity in the funding structures is a function of the rate structure in the two districts. Parking rates are higher in Bethesda than in Silver Spring; property tax rates are two-and-a-half higher times in Silver Spring than in Bethesda.

OLO Recommendations

OLO offers the following four recommendations for Council consideration.

1. ***Approve a PLD fund balance policy; require that future year budgets and fiscal plans comply with the fund balance policy.***

OLO recommends that the Council adopt a policy that sets a target fund balance percentage (that is, the available end-of-year balance measured as a percent of total annual enterprise fund resources) for the PLDs. The purpose of this proposed policy is to assure that each PLD fund has sufficient resources to meet its debt service, operating, and capital budget obligations and to protect against unanticipated revenue shortfalls or cost increases. If a PLD fund balance is projected to deviate significantly from the target, the County would then take corrective measures – adjustments to revenues and/or expenditures – to comply with the policy.

OLO advises that budgetary adjustments should be made in the context of the long-term fiscal condition of the enterprise funds. Changes in revenues or expenditures need not be made if the fund balance percentage for a single fiscal year deviates significantly from the target level. Budget adjustments should be made when multi-year projections point to an on-going trend away from the fund balance target.

Based on our review of annual variations in PLD operating budgets, OLO recommends that the Council adopt a policy to maintain a 30% fund balance percentage for PLD enterprise funds.

2. ***Amend the County Code to clarify the conditions for transferring resources from a PLD enterprise fund.***

OLO recommends that the Council amend the County Code to specify that parking related debt service, operating, and capital obligations must be the primary uses of PLD resources. Further, the Code should restrict transfers from enterprise funds to available resources in excess of the fund balance target after parking related capital obligations have been fulfilled.

The County Code is ambiguous as to whether the current practice of transferring PLD fine revenues to the Mass Transit Fund is permissible. OLO recommends amending the Code to allow the transfer of PLD resources to the Mass Transit Fund subject to the availability of resources and consistent with fund balance requirements.

3. ***Request the Executive Branch recalculate projected PLD property tax revenues to account for properties newly exempted from the tax.***

OLO recommends that the Council request the Executive Branch recalculate PLD property tax revenue projections in light of the revised parking requirements and submit the updated projections no later than June 15, 2015. The Executive's should assess the volatility of future year PLD tax generation given the new parking requirements. In addition, the Executive should inform the Council on efforts to notify property owners of their potential eligibility for the tax exemption.

4. ***Develop a plan for the long-term fiscal stability of the PLD enterprise funds; solicit public comments on methods for achieving long-term PLD fiscal stability.***

Under the existing PLD fiscal structure, no established process exists to assure that the enterprise funds retain sufficient resources to meet long-term obligations. Rather, the County has made a series of one-year adjustments through the annual operating budget to temporarily address PLD funding needs. Annual budget decisions rarely have addressed the long-term structural conditions of the PLD enterprise funds.

OLO recommends that the County adopt a plan for long-term PLD fiscal stability. Absent a long-term plan, the County will be unable to assure the on-going maintenance of sufficient PLD enterprise fund reserves to fulfill debt service and operating obligations in the event of unforeseen revenue decreases or cost increases. The projected deficit currently facing the Bethesda PLD enterprise fund could be corrected through a plan to assure that – over the long-term – anticipated revenues meet or exceed planned expenditures. A similar approach would safeguard the other PLDs from encountering future deficits. OLO further suggests that the Council should solicit public comments on existing PLD fund conditions and alternative methods to correct fiscal deficiencies.

OLO offers the following alternative options as model approaches to achieve the goal of PLD fiscal stability.

OPTION 1.a: ADJUST SPENDING AND/OR REVENUE GENERATION TO COMPLY WITH FUND BALANCE POLICY

The County would set annual budgets for the PLD enterprise funds in the context of a fund balance policy. In the event that a PLD enterprise fund is projected to fall below the targeted fund balance, the County would either (a) limit the annual transfers to other funds to comply with the fund balance policy; and/or (b) increase parking fee, parking fine, or property tax rates.

Under certain circumstances a PLD enterprise fund may have resources in excess of the fund balance policy requirements. In these instances, the County would lower parking fee, parking fine, or property tax rates (or hold these rates constant over time against inflation) to bring down the enterprise fund balance to the target level.

OPTION 1.b: AMEND THE CHARTER TO EXEMPT PLD TAXES FROM THE CHARTER LIMIT

This option is identical to the previous option but would also include a charter amendment exempting PLD property taxes from the charter limit.

OPTION 2: PROVIDE GENERAL FUND SUPPORT TO ASSURE COMPLIANCE WITH FUND BALANCE POLICY

In any given year, the General Fund would assist any PLD enterprise fund that lacks sufficient resources to meet parking-related obligations, continue (or increase) transfers, and meet fund balance requirements.

OPTION 3: LIMIT PLD EXPENDITURES TO PARKING-RELATED FUNCTIONS

The County would restrict the use of PLD fee, fine, and property tax revenue to activities directly related to parking-related activities. The Code would be amended to remove authorization for the transfer of PLD resources to other funds. With the elimination of transfers, the PLDs would need to raise less revenue than under current practice. As a result, PLD fee, fine, and/or property tax rates could be lowered. Reductions in PLD property tax rates would permit a shift in revenue generation capacity to other property taxes under the charter limit.

OPTION 4: CREATE A CONSOLIDATED ENTERPRISE FUND FOR THE FOUR PLDS

All revenues from the four PLDs would be pooled into a single enterprise fund. All four districts would draw from the consolidated fund to pay for debt service, operating, and capital obligations. The consolidated enterprise fund would be subject to a fund balance policy with a target reserve level. Transfers from the consolidated enterprise fund for non-PLD purposes would be permitted subject to the availability of resources.

The County Council would continue to annually set parking fee and fine rates for each district with rates varying by district, by duration, and by space location. However, the Council would set a single PLD property tax rate for all non-exempted properties in all four districts.

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Parking Lot District Fiscal Management and Budgeting

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A. Authority

Council Resolution 17-830, *FY 2014 Work Program for the Office of Legislative Oversight*, adopted July 30, 2013.

B. Scope, Purpose, and Methodology

Montgomery County has established parking lot districts (PLDs) in Bethesda, Montgomery Hills, Silver Spring, and Wheaton. The purpose of these districts is to provide property owners an off-site alternative to the on-site parking requirements of the Zoning Ordinance. In lieu of providing parking on-site, nonresidential property owners in a parking lot district may opt to pay an annual ad valorem tax to fund the construction and maintenance of public parking facilities. The parking lot districts operate as enterprise funds.

During the FY15 operating budget approval process, the County Council considered the fiscal health of the PLDs. Council staff reported that the Bethesda PLD's fiscal situation is now "quite tenuous" because a large portion of the enterprise fund balance is restricted by a revenue bond covenant and cannot be used for operating expenses. The Council adopted a bill that allowed a one-time transfer of parking fee revenues from the Silver Spring PLD to cover the shortfall in Bethesda PLD resources. In addition, the Council directed OLO to examine the long-term viability of the current parking lot district fiscal policies and practices. This OLO report summarizes how current financial management and budgeting practices affect the long-term fiscal health of the PLDs. Particularly, this report analyzes multi-year revenue and expenditure projections, funding policies, restricted revenues, and funding transfers of the parking lot districts in the County.

OLO staffers Aron Trombka and Kristen Latham prepared this report with editorial and production assistance from Kelli Robinson and mapping assistance from Natalia Carrizosa. OLO conducted this study by meeting with County staff and analyzing the legal framework and budgetary information of the County's parking lot districts.

C. Organization of Report

Chapter 2, Introduction to Parking Lot Districts, provides an overview of parking lot districts, including the legal framework, administration, and revenues/expenditures of the County's four parking lot districts.

Chapter 3, Parking Lot District Fund Policies, describes the current County policies regarding the management of parking lot district resources including transfers and fund balance policy.

Chapter 4, Parking Lot District Revenues and Expenditures, summarizes revenues and expenditure categories of the four County parking lot districts and presents FY15 budget data.

Chapter 5, Fiscal Conditions of the Parking Lot Districts, examines the fiscal conditions of each of the four County Parking Lot Districts and describes variables that may affect future year PLD revenues and expenditures. The chapter also compares the fiscal characteristics of the two largest PLDs, Bethesda and Silver Spring.

Chapter 6, OLO Findings and Recommendations, summarizes the major findings of the report and presents OLO's recommendations. This chapter further presents options to maintain long-term PLD fiscal stability and discusses the policy trade-offs involved in evaluating the options.

Chapter 7, Agency Comments, includes comments from the Chief Administrative Officer on the findings and recommendations of this report.

D. Acknowledgements

OLO received a high level of cooperation from Executive and Legislative Branch staff. We acknowledge the invaluable contributions of:

- Gulshan Babra, Department of Finance
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CHAPTER 2. INTRODUCTION TO PARKING LOT DISTRICTS

This chapter provides background information and data necessary to understand the financial management and budgeting issues discussed in the later chapters of this report. This chapter includes four sections.

- Section A. Overview
- Section B. Legal Framework
- Section C. PLD Administration
- Section D. PLD Revenues

A. Overview

The County Code establishes and specifies the boundaries of parking lot districts (PLDs) in four areas of the County: Bethesda, Montgomery Hills, Silver Spring, and Wheaton (maps of each PLD appears in Appendix A). The County created PLDs to give property owners an off-site alternative to the on-site parking requirements of the Zoning Ordinance. The four parking districts collectively include 19 garages, 21 surface lots, and 2,388 on-street metered parking spaces. The table below shows the year in which each PLD was established and the number of current parking spaces in each district.

Parking Lot District	Year Established	Parking Spaces
Bethesda	1947	7,511
Montgomery Hills	1951	129
Silver Spring	1943	11,648
Wheaton	1951	1,470
Total		**20,758**

B. Legal Framework

This section provides a brief overview of the laws, regulations, and related documents that establish the legal framework for the development and operation of the parking lot districts.

1. County Code Chapter 60

The County parking lot districts are established in Chapter 60 of the County Code. This chapter outlines the geographic area of the PLDs, establishes the right to institute an ad valorem tax in the districts, summarizes the administrative responsibilities, and specifies parking enforcement requirements in the districts. Chapter 60 further mandates the creation of separate funds for revenues collected in each district. The next chapter of this report discusses current policies governing the management of the PLD enterprise funds.

2. County Code Chapter 31

Chapter 31 of the County Code regulates a variety of traffic related issues including emergency traffic control, speed monitoring systems, parking (including meter regulation and enforcement). The portion of the chapter most relevant to this report is Section 31-33 which governs the use of parking fees collected in the County in general and in the PLDs in particular. This section of the Code is discussed in greater detail in the next chapter of this report.

3. County Code Chapter 42A

For many years, the County has transferred resources from the PLDs to support transportation management activities. Chapter 42A governs the transportation demand management activities in the County including the activities of the Bethesda and Silver Spring Transportation Management Districts. This chapter sets forth traffic mitigation plan and agreement requirements as well as associated transportation management fees and enforcement standards.

4. County Code Chapter 68A

The County also transfers PLD resources to support the Bethesda, Silver Spring, and Wheaton Urban Districts. Chapter 68A governs the administration, financial requirements, and activities of the urban districts. The chapter establishes standards regarding the amount of funding that urban districts may receive from the PLDs.

5. County Code Chapter 59

Chapter 59 of the County Code is the County's zoning ordinance. In 2014, the County Council amended Chapter 59 to establish new requirements for most land use zones in the County effective October 30, 2014. The revised zoning ordinance modified the on-site parking requirements for multiple commercial, retail, multi-family residential, and mixed use zones.[1] The revised parking standards will affect the number of properties in the PLDs that are eligible for a property tax exemption. The table on the following page summarizes select parking differences between the old and new zoning requirements.

6. Fee Resolutions / Code of Montgomery County Regulations

The County Council sets PLD fees by resolution as part of the approval of the annual operating budget. For each PLD, the resolution specifies parking rates and establishes the hours during which parking fees are in effect. The same resolution also sets fine amounts for parking violations. Most recently, the Council adopted Resolution 17-1088 on May 14, 2014. PLD fees and fines are also incorporated into Section 31.33.01 of the Code of Montgomery County Regulations (COMAR).

7. Bethesda Revenue Bond Covenant

In 2012, the County issued bonds to fund construction of a new parking garage in the Bethesda PLD. The bond covenant is a legally binding agreement between the County and bond holders. The covenant details the sources and uses of funds for the bond, management of the Bethesda PLD, and tax matters within the PLD. Most importantly, the bond covenant requires that the designated annual bond payment must be the first use of parking lot district resources.

[1] The revised parking requirements are available at: http://www.amlegal.com/nxt/gateway.dll?f=templates&fn=default.htm&vid=amlegal:montgomeryco_md_mc.

Select Parking Requirement Changes within Parking Lot District

<table>
<tr><th colspan="4">NEW CODE</th><th colspan="3">OLD CODE</th></tr>
<tr><th>Land Use</th><th>Metric</th><th>Baseline Minimum*</th><th>Baseline Maximum*</th><th>Use</th><th>Metric</th><th>Spaces Required</th></tr>
<tr><td>House/ Townhouse</td><td>Dwelling Unit</td><td>1</td><td>2</td><td>Dwelling, one or two family</td><td>Dwelling Unit</td><td>2 (.4-1.6 in CR zone)</td></tr>
<tr><td rowspan="4">Multi-Family Unit</td><td>Efficiency</td><td>1</td><td>1</td><td rowspan="4">Dwelling, multiple family</td><td>Efficiency</td><td>1 (0.6-0.9 in CR Zone)</td></tr>
<tr><td>1 Bedroom</td><td>1</td><td>1.25</td><td>1 Bedroom</td><td>1.25 (0.75-1.125 in CR Zone)</td></tr>
<tr><td>2 Bedroom</td><td>1</td><td>1.5</td><td>2 Bedroom</td><td>1.5 (0.9-1.7 in CR Zone)</td></tr>
<tr><td>3+ Bedroom</td><td>1</td><td>2</td><td>3+ Bedroom</td><td>2 (1.2-1.8 in CR Zone)</td></tr>
<tr><td rowspan="2">Restaurant</td><td rowspan="2">1,000 SF for Patron Use (excluding outdoor seating)</td><td rowspan="2">4</td><td rowspan="2">12</td><td>Country inn</td><td>Restaurant and/or 1,000 gross leasable sf</td><td>Restaurant (see below)
Retail: 5 (4 in CR zone)</td></tr>
<tr><td>Restaurant or similar place dispensing food, drink or refreshments</td><td>1,000 sf of floor areas for patron use inside/per 1,000 sf for patron use outside</td><td>25/15 (4 in CR zone; no spaces for outdoor area)</td></tr>
<tr><td rowspan="2">Office</td><td rowspan="2">1,000 SF of GFA</td><td rowspan="2">2</td><td rowspan="2">3</td><td>Office, general office and professional building of similar uses</td><td>1,000 GSF</td><td>1.9-3 depending on transit proximity and Parking Policy Area (.7-.8 in CR zone)</td></tr>
<tr><td>Office, professional, other than medical practitioner</td><td>Each professional person occupying office</td><td>2 (.4-1.6 in CR Zone)</td></tr>
<tr><td rowspan="4">Retail</td><td rowspan="4">1,000 SF of Gross Leasable Area</td><td rowspan="4">3.5</td><td rowspan="4">6</td><td>Furniture store</td><td>1,000 gross leasable sf</td><td>2 (4 in CR Zone)</td></tr>
<tr><td>Regional shopping centers</td><td>1,000 gross leasable sf</td><td>5.5 (4 in CR Zone)</td></tr>
<tr><td>Retail establishments, auxiliary</td><td>1,000 gross leasable sf</td><td>3.5 (4 in CR Zone)</td></tr>
<tr><td>Retail, general</td><td>1,000 gross leasable sf</td><td>5 (4 in CR Zone)</td></tr>
</table>

*From Montgomery County Parking Policy Study (Spring 2011) - The "minimum requirement" estimates the number of spaces needed to support on-site uses in a shared-parking environment. The minimum requirement is based on the baseline ratio for each use, modified by any applicable Non-Auto Driver Mode Share (NADMS) target. In the case of projects within a Primary PLD the minimum requirement only considers long-term demand.   The "maximum" estimates the greatest number of spaces that should be needed as reserved spaces without unduly burdening the local shared-parking supply within the PLD. The maximum requirement is based on the baseline ratio for each use modified by projections of overall demand – both long-term and short-term.

C. PLD Administration

The Division of Parking Management within the Department of Transportation is responsible for the administration of parking lot districts in the County. The mission of the Division is to support public parking in commercial areas in the County, especially in the parking lot districts and to:

- Promote economic growth through sufficient parking options;
- Encourage the most efficient transportation modes through careful balance of rates and parking supply; and
- Develop parking management strategies to maximize the usage of available parking.

In FY15, the Division of Parking Management had an approved budget of $28.5 million and a personnel complement of 49.9 full time equivalents. The responsibilities of the Division include:

- Management of information technology, budget, human resources, planning, and real property development for the PLDs;
- Processing and reconciliation of all parking district revenues;
- Maintenance of all parking lots, garages, and surrounding grounds, including equipment and system maintenance and facility repairs.
- Collection and processing of all parking revenue, including revenue from individual meters, automated pay stations, cashiered facilities, parking permits, and parking fines.[2]

The Division hires contractors to provide a variety of services including: cashiers, parking enforcement, meter collections, security, parking ticket database management, garage housekeeping and maintenance.

D. PLD Revenues

This section briefly summarizes the revenue structure of the parking lot districts. The primary revenue sources of the parking lot districts are parking fees, parking fines, and a special property tax. A more detailed examination of this topic appears in Chapter 4 of this report.

1. Parking Fees

Chapter 31 of the County Code authorizes the County Executive to install and maintain parking meters in the County. The County charges a fee for on-street, lot, and garage parking in the PLDs. The County collects parking fees either by means of space-specific meters as well as centralized facility pay stations. Cash is accepted for all spaces; many spaces also offer credit card or pay-by-phone options. The table on the following page presents select current parking hours and rates for the four parking lot districts.

[2] The Division also processes Mass Transit Fund bus revenue for deposit.

Select FY15 PLD Parking Hours and Rates

PLD	Hours	Hourly Parking	Monthly Permit	Daily Permit
Bethesda	On-street: 9 am - 10 pm (M-Sa) Lot/Garage: 7 am - 10 pm (M-F)	On-street: $2.00/hr. Lot: $1.25/hr. Garage: $0.80/hr.	$150 / month	$12.00 / day
Montgomery Hills	All spaces: 9 am - 6 pm (M-F)	$0.50/hr.	$90 / month	NA
Silver Spring	On-street: 9 am - 6 pm (M-F) Lot/Garage: 7 am - 7 pm (M-F)	<4 hours: $1.00/hr. 4+ hours: $0.65/hr.	$123 / month	$7.80 / day
Wheaton	On-street/Lot: 9 am - 6 pm (M-Sa) Garage: 9 am - 6 pm (M-F)	<4 hours: $0.75/hr. 4+ hours: $0.60/hr.	$113 / month	NA

A comparison of the Bethesda and Silver Spring PLD parking fee structures and their effect on revenue generation appears in Chapter 5 of this report.

2. Parking Fines

Parking Lot District enterprise funds also receive revenue generated by fines paid for parking violations occurring within the boundaries of PLDs. The Council annually sets parking violation fine amounts in the same resolution that establishes PLD parking rates. Violations subject to fines include parking:

- At an expired meter;
- In a “no parking” zone;
- In a handicapped parking space without a proper tag or placard;
- Without a permit in a residential permitted area;
- Near a fire hydrant; and
- In manner that obstructs access to a crosswalk, intersection, or driveway.

Chapter 4 of this report discusses the permitted uses for PLD fine revenues. The table below presents select current parking violation fine amounts. Parking violation fines are the same in all areas of the County including the PLDs.

Selected FY15 Parking Violation Fine Amounts

Violation	Fine Amount
Expired parking meter	$45.00
Overtime parking at parking meter	$50.00
More than 3 feet from parking meter	$45.00
More than 1 vehicle in parking space except motorcycles	$45.00

3. Property Tax Revenues

Chapter 60 of the County Code authorizes the Council to levy ad valorem property taxes in the PLDs. However, the Code limits the PLD property tax to a maximum of:

- One dollar on each one hundred dollars of assessed value of real property which is used in whole or in part for commercial, industrial or general business purposes, and a similar tax of one dollar on each one hundred dollars of assessed value of all tangible personal property located on such land.

- Fifty cents on each one hundred dollars of assessed value of real property which is not used for commercial, industrial or general business purposes, but which is classified or shown on any zoning plan or master as recommended for classification in a zone permitting a commercial, industrial or general business use.

The Council sets PLD property tax rates as part of the County's annual budget process. Current tax rates are significantly lower than maximum amount specified in the Code. The table below shows the current PLD tax rates property used for commercial or industrial purposes.

FY15 Parking Lot District Real Property Tax Rates
(per $100 of assessed value)

Parking Lot District	Real Property	Personal Property
Bethesda	$0.124	$0.310
Montgomery Hills	$0.240	$0.600
Silver Spring	$0.317	$0.793
Wheaton	$0.240	$0.600

4. PLD Property Tax Exemption / Reduction

The County Code provides for a PLD property tax exemption or reduction for certain properties. As specified in Section 60-6 of the Code, a property owner who provides off-street parking that complies with all the requirements of Article 59-6 of the Zoning Ordinance is exempt from the PLD property tax. In addition, Section 60-6 provides for reductions in the PLD property tax obligation for properties that partially comply with Zoning Ordinance parking requirements. The required number of spaces and the amount of the property reduction varies by land use as specified in the Code.

A property owner must apply to the Department of Transportation (DOT) for a PLD property tax exemption or reduction. The Code established the annual application deadline as April 1.[3] Upon determination that the property meets the criteria set forth in the Code, DOT grants approval for the tax exemption or reduction. An approved exemption or reduction continues for subsequent years without re-application "unless there is a change in the number of parking spaces or in the floor area,

[3] Council bill 43-14, enacted on November 25, 2014, extended the FY15 application deadline to February 28, 2015.

number of employees, or any other factor governing the number of automobile parking spaces required to qualify for continued exemption" (Section 60-14).

Recent revisions to Zoning Ordinance parking requirements could increase the number of properties eligible for a PLD property exemption or reduction. At present, DOT does not have sufficient property-specific data to determine how many properties will become newly eligible for a tax exemption or reduction under the revised zoning requirements.

CHAPTER 3. PARKING LOT DISTRICT FUND POLICIES

This chapter describes current County policies regarding the management of parking lot district resources. The chapter includes three sections:

- Section A. PLDs as Enterprise Funds
- Section B. Transfers from an Enterprise Fund
- Section C. Fund Balance Policy

The major findings of this chapter are:

- *As enterprise funds, the PLDs should generate sufficient revenue on an on-going basis to cover the debt service, operating, and capital costs of providing parking in the four districts.*
- *Long established County policy permits use of PLD funds for certain specified non-PLD programs. However, the Code does not address the relative priority of using PLD funds for parking-related purposes versus transferring these resources for other purposes. Moreover, no standard or policy exists (other than year-to-year budget decisions) to adjust the amount of annual PLD transfers to account for the availability of resources.*
- *The approved Fiscal Policy states that "[t]he County will, through pricing, inventory control, and other management practices, ensure appropriate fund balances for its enterprise funds while obtaining full cost-recovery for direct and indirect government support." However, no PLD fund balance policy appears in any County budget document.*

A. PLDs as Enterprise Funds

The County's Office of Management and Budget (OMB) defines an enterprise fund as "a fund used to record the fiscal transactions of government activities financed and operated in a manner similar to private enterprise, with the intent that the costs of providing goods and services, including financing, are wholly recovered through charges to consumers or users."[1] In other words, the operating and capital costs of a program supported by an enterprise fund should be covered by fees and charges paid by those who use or benefit from the program. To achieve this outcome, the County must set enterprise fund fees and charges at rates that will generate sufficient revenue to pay for program costs.

Chapter 60 of the County Code creates the four County Parking Lot Districts and sets forth the legal requirement for the management and operation of the PLDs. While Chapter 60 does not use the term

[1] Glossary of Budget Terms, https://reports.data.montgomerycountymd.gov/omb/glossary

"enterprise fund,"[2] the chapter requires the County to establish dedicated funds for each of the PLDs. Section 60-16 of the chapter includes the following:

> The Director of Finance must keep the special taxes and parking fees collected from each district in a separate fund for each district, and each fund must be used so that enough funds are available to pay the principal and interest, as they become due, upon any bonds issued to acquire, build, restore, or improve the off-street parking facilities in the particular district from which the money in that fund is collected. The balance must be used to acquire, build, maintain, or operate off-street parking facilities in that district. … If in any fiscal year any balance remains after those payments, the Director of Finance must hold it until the following fiscal year and apply it as provided in this subsection. … On-site expenses in connection with the acquisition, improvement, operation, or maintenance of the off-street parking facilities must not be paid from the general revenues of the County."

County budget documents identify the PLD funds as enterprise funds. The Capital Improvement Program document includes the following description of the PLD funds:

> Each of the four Parking Lot Districts is financially structured as an enterprise fund and is treated as a separate entity for accounting purposes. The districts are self-supporting and most parking facility projects are funded with current revenues generated from the parking districts.[3]

In sum, the four PLD funds, as enterprise funds, should generate sufficient revenue on an on-going basis to cover the debt service, operating, and capital costs of providing parking in the four districts. Chapter 5 of this report addresses the fiscal conditions of the PLDs and presents data and analysis on the balance (or imbalance) of on-going revenue and expenditure streams for each district.

B. Transfers from an Enterprise Fund

Long established County policy permits use of PLD funds for certain specified non-PLD programs. As detailed in Chapter 4 of this report, the County Code authorizes the transfer of resources from PLD funds to support urban districts and transportation management activities. However, the Code does not address the relative priority of using PLD funds for parking-related purposes versus transferring these resources for other purposes. In other words, the Code does not set forth any prerequisite conditions that must be achieved to allow transfer of PLD funds to non-PLD programs.

In contrast, a spending priority hierarchy is established for another County enterprise fund, the Liquor Control Fund. Montgomery County's role in the sale and distribution of alcoholic beverages is governed by State law. Maryland law requires that profits from County sale of alcoholic beverages (net operating costs) must first pay debt service obligations for bonds issued to support the liquor

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[2] Chapter 2 of the County Code lists the responsibilities of County Government departments, including the Department of Transportation (DOT). This chapter explicitly refers to the PLD funds as enterprise funds. Section 2-55 requires DOT to "operate and maintain public parking facilities under Chapter 60; enforce parking regulations; manage the parking enterprise fund under Chapter 60."

[3] FY15-FY20 Executive Recommended Capital Improvements Program, Transportation section, page 37, http://www.montgomerycountymd.gov/OMB/Resources/Files/omb/pdfs/fy15/ciprec/dot.pdf.

dispensary system. Next, the State law requires that proceeds from the sale of liquor be set aside to maintain adequate resources to provide for the on-going operation of the alcoholic beverage dispensary system. Only after capital and operating obligations have been met does the law permit a transfer of funds to the County's General Fund.[4]

As demonstrated in Chapter 4, projected Bethesda PLD revenues are not sufficient to cover the estimated future year combined costs of debt service payments, operating expenses, and transfers to other funds. Yet, no standard or policy exists (other than year-to-year budget decisions) to adjust the amount of annual PLD transfers to account for the availability of resources.

C. Fund Balance Policy

Governments commonly establish policies for special funds, including enterprise funds, to safeguard against unanticipated occurrences. These fund balance policies specify an amount of resources to be left in reserve to allow the program to meet its operating obligations in the event of unforeseen revenue shortfalls or cost increases. The County's Fiscal Policy recognizes the need to establish reserves for special non-tax supported funds such as the PLD funds:

> The budgeted reserve levels for non-tax supported funds are established by each government agency and vary based on the particular fiscal requirements and business functions of the fund as well as any relevant laws, policies, or bond covenants. [5]

More specifically, the County's Fiscal Policy states that enterprise funds should maintain sufficient fund balances to cover program expenses and even accommodate transfers of surplus funds:

> The County will, through pricing, inventory control, and other management practices, ensure appropriate fund balances for its enterprise funds while obtaining full cost-recovery for direct and indirect government support, as well as optimal levels of revenue transfer for General Fund purposes.[6]

In 2001, the Council's Management and Fiscal Policy Committee requested that all Council Committees review the fund balance policies for special funds under each Committee's jurisdiction. In 2002, the Council's Transportation and Environment (T&E) Committee discussed the fund balance policies for the PLDs. The T&E Committee reviewed a policy memo from three department directors to the Committee that set forth a statement of policy regarding PLD fund balances (see Appendix B).[7] The memorandum states that the Executive Branch policy's for PLDs is that "the unrestricted fund balance should be at least 50 percent of the projected operating expenses for the subsequent fiscal year." The memorandum further explains that prescribed fund balance would ensure that the PLDs will "satisfy operating and capital obligations and maintain certain levels of transfers to other funds." Note that this Executive Branch policy statement assumes that the PLDs will transfer resources on an on-going basis to other funds and that the fund balance policy should

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[4] Annotated Code of Maryland, Article 2B – Alcoholic Beverages, Section15-207(e).
[5] Fiscal Policy, https://reports.data.montgomerycountymd.gov/reports/BB_FY15_REC/BO_FISCAL
[6] Ibid.
[7] Memorandum from Finance Director Timothy L. Firestine, Public Works and Transportation Director Albert J. Genetti Jr., Management and Budget Director Robert K. Kendal to Transportation and Environment Committee Chair Isiah Leggett, October 23, 2002.

account for these transfers. Finally, the memorandum suggests corrective actions that would be undertaken to address declining PLD fund balances. These corrective actions would include adjustments in parking rates, property tax rates, and expenditure levels. The full Council never formally approved this policy statement nor does the policy appear in any County budget document.

For some special funds, the fund balance policy is explicitly stated in budget documents. For example, the Liquor Control Fund Fiscal Plan defines its fund balance requirement as equaling "one month's operating expenses, one payroll, and $1,500,000 for inventory in cash balance."[8] The Liquor Control policy requires maintenance of the fund balance even at the expense of transfers to the General Fund. A similar policy approach has not been implemented for the PLD enterprise funds. As detailed in Chapter 5, the current fund balance for the Bethesda PLD is well below the standard suggested in the 2002 memorandum to the T&E Committee and is projected to fall below zero by FY20.

[8] FY15-FY20 Public Services Program, Fiscal Plan for the Liquor Control Fund, http://www.montgomerycountymd.gov/OMB/Resources/Files/omb/pdfs/FY15/psprec/dlc.pdf

CHAPTER 4. PARKING LOT DISTRICT REVENUES AND EXPENDITURES

This chapter describes the different revenues and expenditure categories of the four County parking lot districts and presents FY15 budget data by category and by district. The chapter includes two sections:

- Section A. PLD Revenues
- Section B. PLD Expenditures

The major findings of this chapter are:

- *The relative contributions of the four PLD revenue sources vary significantly among the four districts. In Bethesda, FY15 parking fees will provide nearly two-thirds (64%) of the PLD's revenue, more than five times the revenue raised from property taxes (12%). In contrast, parking fees will provide about half (51%) of FY15 Silver Spring PLD revenue with property taxes supplying 37.9% of the district's revenues.*
- *PLD revenues are relatively stable and predictable. Miscellaneous revenue is the most volatile form of PLD revenue. In Bethesda and Silver Spring, proceeds from the sale of PLD property or a bond issuance have generated one-time spikes in miscellaneous revenue.*
- *In all four PLDs, operating expenses constitute the largest FY15 expenditure category.*
- *The Bethesda PLD expends 29% of its resources on transfers to other funds; the Silver Spring PLD expends 27% of its resources on transfers.*
- *PLD funds constitute the primary revenue source for the urban districts. As budgeted in FY15, PLDs will provide 82% of Bethesda Urban District resources; 74% of Silver Spring Urban District resources; and 64% of Wheaton Urban District resources.*
- *The Bethesda and Silver Spring transportation management districts (TMD) are heavily dependent on PLD transfers. As budgeted in FY15, PLDs will provide 71% of Bethesda TMD resources and 94% of Silver Spring TMD resources.*
- *The County Code is ambiguous as to whether PLD fine revenues may be transferred to the Mass Transit Fund.*

A. PLD Revenues

As described in the previous chapter, the four County Parking Lot Districts operate as enterprise funds. As such, PLD revenues must be sufficient to cover the on-going operating and capital expenses of the districts. The section describes the different sources of PLD revenues.

1. Revenue Sources

The PLD enterprise funds receive revenue from four sources: parking fees, parking fines, property taxes, and miscellaneous revenue.

a. Parking Fees

Section 60-15 of the County Code authorizes the County to charge time-based fees for parking in public spaces within the boundaries of each PLD. The County Council annually sets PLD fees through a resolution that accompanies the approval of the annual operating budget. For each PLD, the resolution specifies parking rates and establishes the hours during which parking fees are in effect. Hourly parking fees may vary based on length of time and location. In the Silver Spring and Wheaton PLDs, hourly parking rates are greater for four or fewer hours than the hourly rates for more than four hours. In Bethesda, hourly fees vary by location with the highest hourly rates for on-street spaces and the lowest hourly rates for garage parking. Some PLDs also offer daily and monthly parking permits with lower rates for carpools.

b. Parking Fines

Parking Lot District funds also receive revenue generated by fines paid for parking violations occurring within the boundaries of PLDs. The Council annually sets parking violation fine amounts in the same resolution that establishes PLD parking rates. A discussion of the permitted uses of PLD parking fine revenues appears later in this chapter.

c. Property Taxes

As detailed in Chapter 2, Section 60-3 of the County Code authorizes the County to levy an ad valorem tax on certain properties within the boundaries of a PLD. Property owners who provide the full amount of on-site parking as required by County Zoning Ordinance may apply for an exemption from the ad valorem tax. Alternatively, property owners may pay the ad valorem tax for the purpose of providing shared, public parking.

d. Miscellaneous Revenue

The PLD enterprise funds (with the exception of Montgomery Hills) receive revenue from other miscellaneous sources. Some forms of miscellaneous revenue recur from year to year, such as investment income or income from lease or rental agreements. Other miscellaneous revenue comes in the form of one time payments, such as proceeds from the sale of land or a bond issuance.

In June 2014, DOT issued a request for proposals to install solar electric power generating systems on twelve garages in the Bethesda, Silver Spring, and Wheaton PLDs. The result of this solicitation could generate additional miscellaneous revenue in future years.

2. Relative Contribution of Revenue Sources

The relative contributions of the four PLD revenue sources vary significantly among the four districts. In Bethesda, FY15 parking fees will provide nearly two-thirds (64%) of the PLD's revenue, more than five times the revenue raised from property taxes (12%). In contrast, parking fees will provide about half (51%) of FY15 Silver Spring PLD revenue with property taxes supplying 38% of the district's revenues. Parking fine revenue also differs greatly by district. Fines will contribute 28% of FY15 PLD revenue in Wheaton but only 11% of PLD revenue in Silver Spring.

The tables on the next page show FY15 budgeted revenues by type for each of the four PLDs. Chapter 5 includes additional discussion of the relative contribution of each revenue source for the two largest PLDs, Bethesda and Silver Spring.

3. Stability of PLD Revenues

PLD revenues are relatively stable and predictable. Parking fee revenue generation is a function of rates, the number of spaces, and usage and does not experience large annual fluctuations. Similarly, annual PLD fine revenue also varies minimally from year to year. In recent years, actual fee and fine revenues have generally fallen slightly below budgeted amounts. From FY10 through FY14, actual PLD fee and fine revenue generation (combined for five years from all four districts) was about 2% below budgeted levels.

PLD property tax revenue is a function of the assessable base in each district. For the most part, assessable base increases have produced steady, annual increases in PLD revenue as moderated by the County's "charter limit." The charter limit requires the approval of all nine Councilmembers to set property tax rates on existing development at a level that generates more revenue than in the previous year (adjusted for inflation). The charter limit does not apply to newly constructed or newly rezoned properties. Actual PLD property tax revenues have fallen slightly below budgeted amounts in recent years. From FY10 through FY14, actual PLD property tax revenue generation (combined for five years from all four districts) was about 2% below budgeted levels.

Miscellaneous revenue is the most volatile form of PLD revenue. In Bethesda and Silver Spring, proceeds from the sale of PLD property or a bond issuance have generated one-time spikes in miscellaneous revenue. For example, in FY14, the Bethesda PLD received a one-time infusion of $33.5 million from the sale of bonds related to the development of Garage 31.

The tables on the follow page show FY15 budgeted revenues by type for each of the four PLDs. Chapter 5 includes additional discussion of the relative contribution of each revenue category for the two largest PLDs, Bethesda and Silver Spring.

Bethesda Parking Lot District FY 15 Budgeted Revenues

Revenue Source	FY15 Budget	Percent of Total
Parking Fees	$13,989,700	64.2%
Parking Fines	$4,829,000	22.2%
Property Taxes	$2,629,800	12.1%
Miscellaneous	$346,800	1.6%
TOTAL	**$21,795,300**	**100.0%**

Montgomery Hills Parking Lot District FY 15 Budgeted Revenues

Revenue Source	FY15 Budget	Percent of Total
Parking Fees	$52,000	32.5%
Parking Fines	$25,000	15.6%
Property Taxes	$82,800	51.8%
Miscellaneous	$0	0.0%
TOTAL	**$159,800**	**100.0%**

Silver Spring Parking Lot District FY 15 Budgeted Revenues

Revenue Source	FY15 Budget	Percent of Total
Parking Fees	$10,550,000	51.1%
Parking Fines	$2,256,300	10.9%
Property Taxes	$7,808,400	37.9%
Miscellaneous	$13,500	0.1%
TOTAL	**$20,628,200**	**100.0%**

Wheaton Parking Lot District FY 15 Budgeted Revenues

Revenue Source	FY15 Budget	Percent of Total
Parking Fees	$925,200	47.4%
Parking Fines	$546,000	28.0%
Property Taxes	$480,800	24.6%
Miscellaneous	$500	0.0%
TOTAL	**$1,952,500**	**100.0%**

B. PLD Expenditures

The PLD enterprise funds expend resources to develop and maintain shared parking spaces in the four districts. The enterprise funds also transfer resources to support certain non-PLD activities.

1. Expenditure Categories

For the purpose of this report, OLO has divided annual PLD enterprise fund expenditures into four categories: operating expenses, capital expenditures – current revenue, debt service payments, and fund transfers. This section details PLD expenditures by category type.

a. Operating Expenses

PLD revenues fund the operations of the four districts. The Department of Transportation's Division of Parking Management has a staff of 52 positions that oversee parking facility operations and maintenance activities including:

- Maintenance and repair of building systems (e.g., elevators, plumbing, electrical systems);
- Repair of meters and other equipment;
- Facility painting and space striping;
- Graffiti removal and vandalism repair;
- Facility cleaning and trash removal;
- Snow and ice removal; and
- Grounds keeping.

The Division of Parking Managements also expends PLD operating budget resources for contract security services. In addition, the Division uses PLD funds for the collection and processing of fees received from individual meters, automated pay stations, cashiered facilities, parking permits, and parking fines.

Other major operating expenses include credit/debit card processing fees and procurement of backup batteries for emergency power supply. In addition, the approved budgets for each PLD include transfers to the General Fund to pay for indirect operating expenses such as technology, legal, and administrative services.

b. Capital Expenditures – Current Revenue

The County Capital Improvements Program (CIP) contains several PLD-related projects. Each of these projects is funded, at least in part, through expenditure of PLD fund current revenue. (Current revenue is a term referring to the use of current year fund resources as a substitute for debt financing in the capital budget.) The Facility Renovation and the Facility Planning capital projects for the Bethesda, Silver Spring, and Wheaton PLDs are funded exclusively through current revenue.

c. Debt Service Payments

The County debt finances some PLD capital projects. The County has issued revenue bonds to fund parking facility construction projects. Revenue bonds finance specific projects associated with revenue-generating activities. Proceeds from the sale of revenue bonds may be used solely to finance the specific facilities authorized by the bond issuance. Revenues generated by the completed facilities fund debt service payments for the revenue bonds. These debt service payments constitute an annual operating budget obligation.

d. Fund Transfers

Chapter 60 of the County Code authorizes the transfer of resources from PLD enterprise funds for certain purposes. Specifically, the County Council may approve a budget that transfers PLD resources to fund activities of urban districts and transportation management districts. The budgets for the Bethesda, Silver Spring, and Wheaton PLDs also include transfers of resources to the Mass Transit Fund. Additional details about the transfer of PLD resources to other funds appear in Section B.3 below.

For the purpose of this report, transfers to the General Fund to pay for technology, legal, and administrative services costs are considered operating expenses and not a transfer to another fund.

2. Relative Allocation of Expenditures

In all four PLDs, operating expenses constitute the largest FY15 expenditure category. However, the relative allocation of PLD spending on operating expenses ranges greatly from a high of 97% for the Montgomery Hills PLD to a low of 42% for the Bethesda PLD. Expenditures for capital projects (current revenue and debt service combined) range from 29% for the Bethesda PLD to 8% for the Wheaton PLD. (The Montgomery Hills PLD has no capital improvement expenditures.) The Bethesda PLD expends the largest percentage of resources on transfers to other funds (29%); the Montgomery Hill PLD transfers the lowest percentage of resources to other funds (3%).

The tables on the following page show FY15 budgeted expenditures by type for each of the four PLDs. Chapter 5 includes additional discussion of the relative contribution of each expenditure category for the two largest PLDs, Bethesda and Silver Spring.

Bethesda Parking Lot District FY15 Budgeted Expenditures

Expenditure	FY15 Budget	Percent of Total
Operating Expenses	$10,411,700	41.9%
Capital – Current Revenue	$2,321,000	9.3%
Debt Service Payments	$4,959,800	19.9%
Transfers to Other Funds	$7,180,000	28.9%
TOTAL	**$24,872,500**	**100.0%**

Montgomery Hills Parking Lot District FY15 Budgeted Expenditures

Expenditure	FY15 Budget	Percent of Total
Operating Expenses	$148,200	96.7%
Capital – Current Revenue	$0	0.0%
Debt Service Payments	$0	0.0%
Transfers to Other Funds	$5,000	3.3%
TOTAL	**$153,200**	**100.0%**

Silver Spring Parking Lot District FY15 Budgeted Expenditures

Expenditure	FY15 Budget	Percent of Total
Operating Expenses	$12,396,500	58.3%
Capital – Current Revenue	$3,225,000	15.2%
Debt Service Payments	$0	0.0%
Transfers to Other Funds	$5,659,200	26.6%
TOTAL	**$21,280,700**	**100.0%**

Wheaton Parking Lot District FY15 Budgeted Expenditures

Expenditure	FY15 Budget	Percent of Total
Operating Expenses	$1,407,600	67.6%
Capital – Current Revenue	$157,000	7.5%
Debt Service Payments	$0	0.0%
Transfers to Other Funds	$517,300	24.8%
TOTAL	**$2,081,900**	**100.0%**

3. Transfers to Other Funds

As mentioned above, the County Code authorizes transfers of PLD resources to other funds for certain purposes. The Code specifies that the County Council may approve transfers of PLD parking fee revenue to fund urban districts and transportation management activities. As detailed below, the annual operating budgets for the Bethesda, Silver Spring, and Wheaton PLDs also include transfers to the Mass Transit Fund.

a. Urban Districts

Chapter 68 of the County Code authorizes the County to establish urban districts in Bethesda, Silver Spring, and Wheaton. These areas are special taxing districts within which the County provides amenities and services generally not performed countywide such as streetscaping, public space enhancements (e.g. plantings, seating, and shelters), promotion of local businesses, and sponsorship of special events. Property owners within the boundaries of the urban districts pay a special property tax. (Revenue from urban district property taxes are subject to the charter limit.)

As authorized by Section 60-16 of the County Code, the approved budget for the Bethesda, Silver Spring, and Wheaton PLDs include transfers to the Bethesda, Silver Spring, and Wheaton Urban Districts, respectively.[1] The amounts of the annual transfers are determined through the operating budget process. In recent years, the Executive has recommended, and the Council has approved, PLD transfers as necessary to achieve a 2.5% fund balance in Bethesda and Silver Spring Urban District funds.[2] PLD funds constitute the primary revenue source for the Bethesda and Silver Spring Urban Districts. For FY15, the Bethesda PLD provides 82% of budgeted Bethesda Urban District resources while the Silver Spring PLD provides 74% of Silver Spring Urban District resources.[3]

As the Wheaton PLD had experienced fiscal constraints in past years, recent annual transfers to the Wheaton Urban District have been less than would have been required to achieve a 2.5% fund balance. Nonetheless, the Wheaton PLD remains the largest source of Wheaton Urban District funding, providing 64% of FY15 budgeted resources.

b. Transportation Management

County Code Chapter 42A authorizes the County to establish Transportation Management Districts (TMDs) in certain areas of the County. In a TMD, the Department of Transportation works to reduce single occupancy vehicle traffic by means of transit and ridesharing incentive programs and other measures. The County has established five TMDs, two of which – the Bethesda and Silver Spring TMDs – are mostly contiguous with the boundaries of the Bethesda and Silver Spring PLDs.

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[1] The Code further authorizes transfer of Montgomery Hills PLD resources to fund certain activities of the Silver Spring Regional Services Center.

[2] OMB has set the target for Urban District fund balances at 2.5% consistent with the County's Reserve and Fiscal Policies (Council Resolution 17-312, November 29, 2011) that states that "the budgeted reserve … for the … Urban District [funds] … should be the minimum reserve possible (as close to as possible to zero, but not negative) …"

[3] Section 68A-4 of the County Code stipulates that "the proceeds from either the urban district tax or parking fees transferred into an urban district fund must not exceed 90 percent of their combined total."

The approved budgets for the Bethesda and Silver Spring PLDs include transfers to the Bethesda and Silver Spring TMDs as authorized by Section 60-16 of the County Code. The amounts of the annual transfers to the TMDs are determined through the operating budget process. As with the urban districts, the TMDs are heavily dependent on PLD transfers. The Bethesda PLD provides 71% of the FY15 budget for the Bethesda TMD and the Silver Spring PLD provides 94% of FY15 Silver Spring TMD resources.

c. Restriction on the Use of PLD Resources

County law restricts the use of PLD resources. Section 60-16 of the County Code limits the use of PLD funds to:

> "… pay the principal and interest, as they become due, upon any bonds issued to acquire, build, restore, or improve the off-street parking facilities in the particular district from which the money in that fund is collected. The balance must be used to acquire, build, maintain, or operate off-street parking facilities in that district and to reimburse the County for general revenues advanced to that district…"

The Code explicitly exempts transfers to the urban districts and transportation management activities from the above restriction on PLD funds. In addition, Section 60-6 stipulates that the restriction applies to the use of "special taxes and fees collected from each district." This section of the Code does not mention the use of fine revenue in connection to the restriction on the use of PLD funds.

d. Transfer of Fine Revenue to the Mass Transit Fund

For more than a decade, the County has annually transferred resources from the Bethesda, Silver Spring, and Wheaton PLDs to the Mass Transit Fund to support transit services. County budget documents indicate that PLD parking fine revenues were the funding source for the transfers to the Mass Transit Fund. The rationale for these transfers appears to be that Section 60-16 of the Code does not restrict the use of fine revenue to PLD purposes. Annual transfers from PLDs to the Mass Transit Fund have never exceeded annual parking fine revenues collected in each district.

However, a different chapter of the County Code directly addresses the use of parking fine revenues collected in the PLDs. Chapter 31 of the Code regulates motor vehicle and traffic issues and includes an article governing the operation of County-owned parking meters. Section 31-33(c) of the Code states that:

> "All parking meter and other fees or fines shall be applied first to the expense of installing, maintaining, operating and enforcing such parking meters and then to the general fund of the county unless said parking meters are within a parking lot district as provided by chapter 60 of this Code, in which case said revenues shall be applied to said district."

In sum, the Chapter 31 of the Code allocates PLD parking fine revenues to the districts and explicitly excludes this revenue from General Fund use. As such, this section of the Code implies that PLD fine revenue should be used for operation of the districts. The covenant for current Bethesda PLD revenue bonds supports the notion that fine revenues collected in a PLD are intended for PLD use. The bond covenant states (emphasis added):

> "Revenues of the Bethesda Parking Lot District include Parking Fee Revenues, Parking Fine Revenues, Parking Tax Revenues, lease payments, if any, and certain interest income…. The revenues from the special taxes, parking fees and fines collected from the Bethesda Parking Lot District must be used first to pay the principal of and interest on, when due, any outstanding Bethesda Bonds, the proceeds of which are used to acquire, construct, maintain or operate Facilities in the Bethesda Parking Lot District."[4]

OLO finds ambiguity in the legal documents as to whether transfers of PLD fine revenues to the Mass Transit Fund are consistent with current County law and obligations. (In Chapter 6, OLO recommends that the Council amend the Code to clarify this matter.)

Nonetheless, transfers of PLD fine revenue to the Mass Transit Fund have recurred annually for many years. The amounts transferred from PLDs to the Mass Transit Fund are determined through the annual operating budget process. The FY15 operating budget includes a combined transfer of $6.3 million from the Bethesda, Silver Spring, and Wheaton PLDs to the Mass Transit Fund (excluding transfers for transportation management activities). Transfers from the PLDs equal 5.2% of FY15 budgeted expenditures of the Mass Transit Fund.

4. FY15 Transfer Amounts

The FY15 approved operating budget includes a combined $13.4 million in transfers from the PLDs to other funds. Transfers to the Mass Transit Fund ($6.3 million) comprise nearly half of the total PLD transfer amount. The Bethesda PLD transfers the largest dollar amount ($7.2 million) to other funds.

As mentioned above, each PLD transfers resources to the General Fund to pay for indirect costs such as technology, legal, and administrative services. For the purpose of this report, these indirect costs are considered operating expenses and not a transfer to another fund.

The tables on the next page show FY15 budgeted transfers to other funds for each of the four PLDs.

[4] Montgomery County, Maryland, Parking System Project Revenue Bonds (Bethesda Parking Lot District) Series 2012A and Parking System Refunding Revenue Bonds (Bethesda Parking Lot District) Series 2012B Official Statement, May 1, 2012, http://www.montgomerycountymd.gov/BONDS/Resources/Files/Final_Official_Statement_Bethesda_Parking_2012.pdf, page 7.

Bethesda Parking Lot District FY15 Budgeted Transfers

Transfer to:	FY15 Budget	Percent of Total
Bethesda Urban District	$2,823,989	39.3%
Bethesda Transportation Management District	$492,820	6.9%
Mass Transit Fund	$3,863,200	53.8%
TOTAL	**$7,180,009**	**100.0%**

Montgomery Hills Parking Lot District FY15 Budgeted Transfers

Transfer to:	FY15 Budget	Percent of Total
Silver Spring Regional Services Center	$5,000	100.0%
TOTAL	**$5,000**	**100.0%**

Silver Spring Parking Lot District FY15 Budgeted Transfers

Transfer to:	FY15 Budget	Percent of Total
Silver Spring Urban District	$2,440,546	43.1%
Silver Spring Transportation Management District	$962,430	17.0%
Mass Transit Fund	$2,256,250	39.9%
TOTAL	**$5,659,226**	**100.0%**

Wheaton Parking Lot District FY15 Budgeted Transfers

Transfer to:	FY15 Budget	Percent of Total
Wheaton Urban District	$292,320	56.5%
Mass Transit Fund	$225,000	43.5%
TOTAL	**$517,320**	**100.0%**

CHAPTER 5. FISCAL CONDITION OF PARKING LOT DISTRICT FUNDS

This chapter assesses the fiscal conditions of each of the four County parking lot districts (PLDs) based on revenue and expenditure assumptions from the approved FY15-FY20 Fiscal Plan. The chapter also describes the variables that may affect future year PLD revenues and expenditures. Finally, the chapter compares the fiscal characteristics of the two largest PLDs, Bethesda and Silver Spring. The chapter includes three sections:

- Section A. Fiscal Variables
- Section B. Analysis of PLD Fiscal Conditions
- Section C. Comparison of Bethesda and Silver Spring PLD Funds

The major findings of this chapter are:

- *The Bethesda PLD fund faces serious structural challenges that will cause the fund to fall into deficit unless corrective actions are taken. Under current policies and practices, the fund will annually spend more than it receives in revenues driving its already precariously low fund balance toward zero. The extent of on-going structural deficiencies in the Bethesda PLD fund is masked by projected infusions of one-time revenues that cannot be expected to continue in the future. Moreover, a significant increase in the number of PLD property tax exemptions could further deplete PLD revenues and exacerbate the fund's financial troubles.*

- *The Montgomery Hills PLD currently is in sound fiscal condition.*

- *The Silver Spring PLD fund is the most fiscally healthy and stable of the four PLD funds. Projected fund expenditures are well balanced with projected revenues. However, two factors – the possible increase in the number of PLD property tax exemptions and the disposition of MEDCO debt service costs – could reduce the Silver Spring PLD enterprise fund balance and thereby warrant a reassessment of the fund's fiscal condition.*

- *The Wheaton PLD has a healthy fund balance and is projected to retain a strong fund balance in future years. This stability is a result, in part, of past year decisions to adjust the amount of transfers to other funds to address Wheaton PLD fund balance requirements. Wheaton redevelopment including the construction of a new garage will affect future year revenues and expenditures.*

- *The revenue structures of the Bethesda and Silver Spring PLDs differ significantly. Bethesda is more dependent than Silver Spring on fees paid by parkers, Silver Spring has a greater dependence on property taxes. Bethesda parkers pay $5.32 in fees for every dollar paid by Bethesda property owners for the special PLD property tax. In Silver Spring, parkers contribute only $1.35 for each property tax dollar paid. The disparity in the funding structures is a function of the rate structure in the two districts. Parking rates are higher in Bethesda than in Silver Spring; property tax rates are two-and-a-half times higher in Silver Spring than in Bethesda.*

- *The Bethesda PLD allocates nearly 20% of its expenditures to retire revenue bond debt service payments; the Silver Spring PLD has no current debt service obligations.*

A. Fiscal Variables

This chapter describes the fiscal conditions of the four PLD funds based on revenue and expenditure assumptions in the County's approved Fiscal Plan. While PLD revenues and expenditures historically have been relatively stable compared to other County Government revenues and expenditures, certain variables may affect the PLD fiscal conditions in future years.

1. Revenue Variables

Each of the four PLD revenue types – parking fees, parking fines, property taxes, and miscellaneous – are subject to a degree of variability. Parking fees are a product of parking rates and parking usage (the number of parkers and the duration of their stay). The schedule of parking rates is determined annually through the operating budget process. Parking usage may vary as a result of multiple factors including: economic and employment conditions, gasoline prices, traffic congestion, and the availability of transit options. Changes in PLD capacity (such as the opening of a new facility) also may affect usage. Changes in parking rates also may have an effect on parking usage.

Parking fine revenue is a product of the dollar amount of fines for violations and the number and type of violations. Parking fines are determined annually through the operating budget process. Factors that affect the number of violations include driver behavior and enforcement practices. The installation on new technology (such as pay-by-phone meters that allow drivers to pay for additional time in a parking spot without returning to their vehicle) may reduce fine revenue in future years.

PLD property tax revenue is a function of the property tax rate and the assessable base of properties subject to the tax. The PLD assessable base, in turn, is dependent on the value of land and the extent of redevelopment in each district. New construction may increase the assessable base of a PLD. The Council annually approves PLD property tax rates subject to the constraints of the "charter limit."[1] As detailed in Chapter 2, properties located in a PLD that provide on-site parking in compliance with zoning requirements are exempt from paying the PLD property tax.[2] Recent revisions to Zoning Ordinance parking requirements could increase the number of properties eligible for a PLD property exemption. At present, DOT does not have sufficient property-specific data to determine how many properties will become newly eligible for a tax exemption under the revised zoning requirements.

Land sales and bond issuances may provide one-time increases in miscellaneous PLD revenues. PLDs could also generate additional revenue through new initiatives such as rental of advertising space and installation of solar electric power generating systems on garages.

2. Expenditure Variables

As with other government functions, the cost of operating County parking lots and garages increases over time because of inflation. PLD expenditures increase from year to year to account for higher

[1] The charter limit requires the approval of all nine Councilmembers to set property tax rates – including PLD property taxes – on existing development at a level that generates more revenue than in the previous year (adjusted for inflation).
[2] Last fall, the Council approved Bill 43-13 that extended the Calendar Year 2014 deadline for PLD property owners to apply for a property tax exemption. The fiscal impact statement prepared by the Executive Branch for Bill 43-13 indicated that new exemptions could reduce PLD property tax revenue by as much as 50%.

contract services, equipment and supplies, utilities, and other operating costs. In addition, compensation costs for DOT (and other department) personnel who charge all or part of their salaries to the PLDs are subject to change resulting from negotiated labor agreements.

Capital needs could also affect future PLD expenditures. For example, beginning in FY18, each PLD fund will contribute to the cost of building a new "service facility" adjacent to Garage 2 in Silver Spring that will house offices for the meter and maintenance teams, shops for meter repair and cleaning, and storage space. Development of new facilities and renovations of existing facilities could also affect future year PLD expenditures.

As mentioned in Chapter 4, the PLD budgets also include transfers of resources to urban districts, transportation management districts, and the Mass Transit Fund. These transfers are all subject to the annual operating budget process and could vary in the future. The current Fiscal Plan assumes that the PLDs will continue to fund these transfers and will absorb the cost of future program expansions. For example, the Silver Spring PLD Fiscal Plan assumes that the transfer amount to the Silver Spring Transportation Management District will increase by almost $200,000 in FY16 to cover the cost of expanded service for the VanGo circulator.

In the case of the Bethesda PLD, future year fund expenditures will be constrained by the "revenue bond restricted reserve." As detailed below, this reserve consists of fund resources that cannot be expended on operating costs but must be set aside to meet revenue bond covenant requirements.

B. Analysis of PLD Fiscal Conditions

This section presents data on the fiscal conditions of each of the four PLDs funds based on revenue and expenditure assumptions from the approved FY15-FY20 Fiscal Plan. The data presented in the following pages address the on-going structural fiscal health of each fund, excluding temporary adjustments (such as the $1.5 million one-year loan from the Silver Spring PLD fund to the Bethesda PLD fund). As explained in Chapter 4, this report categorizes, PLD transfers to the General Fund for technology, legal, and administrative services costs as operating expenses and not transfers to another fund.

This report refers to a calculation known as "fund balance as a percent of resources" (hereafter "fund balance percentage") as the primary indicator of the fiscal condition of a PLD fund. The fund balance percentage measures the end-of-year fund balance as a percent of the total resources received by the fund during that same fiscal year. The fund balance percentage indicates the degree to which a fund will be able to meet obligations in the event of unplanned expenses or an anticipated downturn in revenue generation. As discussed in Chapter 3, the County Council has never approved a PLD fund balance policy nor does such a policy appear in any County budget document.

1. Fiscal Condition of the Bethesda PLD

Summary tables displaying the FY15 and projected FY15-FY20 Bethesda PLD fund revenues and expenditures appear on page 29.

<u>FY15 Fiscal Condition</u>: The Bethesda PLD began the current fiscal year with a fund balance percentage of 6.1%. Based on revenue and expenditure assumptions in the approved Fiscal Plan, this percentage is projected to fall to 4.8% by the end of FY15. The decline in the fund balance percentage is a result of projected Bethesda PLD expenditures exceeding revenues by $3.1 million in FY15. In fact, the Bethesda PLD fund would have fallen into a deficit this year without a one-year

loan of $1.5 million from the Silver Spring PLD fund.

Revenue bond covenant requirements also affect the fiscal position of the Bethesda PLD. The bond covenant requires the County to maintain a restricted fund reserve in set aside dollars "may be used solely for the purpose of paying principal at maturity of, or interest on, the Bethesda Bonds."[3] For FY15, the Bethesda bond restricted reserve equals $7.1 million.[4] These funds are unavailable to be used for PLD operating expenditures, driving down the fund balance percentage to 4.8%. Under the terms of the 2012 revenue bond issuance, the County remains obligated to maintain this restricted reserve through the Year 2032. Absent the bond restricted reserve requirement, the Bethesda PLD would have a projected end-of-FY15 fund balance percentage of 28.4%.[5]

Six-Year Outlook: Based on current Fiscal Plan estimates, the Bethesda PLD fund is projected to go into deficit by the end of FY20. Absent corrective action, the already low fund balance percentage will drop below zero as projected six-year revenues will fall nearly $3 million below projected expenditures. Notwithstanding a FY15 loan of $1.5 million from the Silver Spring PLD fund, the Bethesda PLD fund would have fallen into deficit in FY16 if not for a one-time payment of $4.0 million to compensate for the loss of 102 parking spaces in Garage 35 related to the development of the new Second District Police Station.

The Fiscal Plan assumes that the Bethesda PLD will receive another large one-time revenue spike of $4.8 million in FY18 as the enterprise fund receives the proceeds from the sale of Lot 43. This one-time infusion of dollars offsets the effects of ongoing expenditures outpacing ongoing revenues. In addition, the Fiscal Plan includes $3.0 million in yet unspecified revenue enhancements in FY19. Absent these revenue adjustments in FY16, FY18, and FY19, the enterprise fund would be projected to have a $12.1 million deficit in FY20 with a fund balance percentage of -49.1%.

Bethesda PLD - Summary Assessment: The Bethesda PLD fund faces serious structural challenges that will cause the fund to fall into deficit unless corrective actions are taken. Under current policies and practices, the fund will annually spend more than it receives in revenues driving its already precariously low fund balance toward zero. The insufficient fund reserve leaves the PLD incapable of absorbing an unanticipated spike in expenses or a downturn in revenue generation.

The extent of on-going structural deficiencies in the Bethesda PLD fund is masked by projected infusions of one-time revenues that cannot be expected to continue in the future. Moreover, a significant increase in the number of PLD property tax exemptions could further deplete PLD revenues and exacerbate the fund's financial troubles. In the very long-term, expiration of revenue bond reserve requirements in the Year 2032 will provide some relief to the fiscal condition of the Bethesda PLD fund.

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[3] Montgomery County, Maryland, Parking System Project Revenue Bonds (Bethesda Parking Lot District) Series 2012A and Parking System Refunding Revenue Bonds (Bethesda Parking Lot District) Series 2012B Official Statement, May 1, 2012, http://www.montgomerycountymd.gov/BONDS/Resources/Files/Final_Official_Statement_Bethesda_Parking_2012.pdf, page 10.

[4] *Ibid*. The bond covenant requires the restricted reserve to be "in an amount equal to the lesser of (1) 125% of the average annual debt service on the Bethesda Bonds; (2) the maximum annual debt service of the Bethesda Bonds; or (3) 10% of the proceeds of the sale of the Bethesda Bonds."

[5] The FY15-FY20 Fiscal Plan is the first to recognize the bond restricted reserve and its effect on the Bethesda PLD fund balance percentage. Previous year Fiscal Plans did not take into account the bond restricted reserve, and so, showed higher fund balance percentages.

Bethesda

Parking Lot District

Total Spaces: 7,511

FY15 Budgeted Revenues and Expenditures

	FY15 Revenues		
	$ Amount	$ Per Space	% of Total
Parking Fees	$13,989,700	$1,863	64.2%
Parking Fines	$4,829,000	$643	22.2%
Property Taxes	$2,629,800	$350	12.1%
Miscellaneous	$346,800	$46	1.6%
TOTAL	**$21,795,300**	**$2,902**	**100.0%**

	FY15 Expenditures		
	$ Amount	$ Per Space	% of Total
Operating Expenses *	$10,411,700	$1,386	41.9%
Capital Expenditures	$2,321,000	$309	9.3%
Debt Service	$4,959,800	$660	19.9%
Transfers **	$7,180,000	$956	28.9%
TOTAL	**$24,872,500**	**$3,311**	**100.0%**

FY15 budgeted expenditures exceed budgeted revenues by $3.1 million (14%).

Six-Year (FY15-FY20) Projected Fiscal Condition

	$ Amount	Fund Balance as Percent of Resources
Beginning Fund Balance *** (July 1, 2014)	**$3,816,600**	**6.1%**
Total Six-Year Revenues (FY15 - FY20)	$146,097,700	
Total Six-Year Expenditures (FY15 - FY20)	$149,005,000	
Increase in Bond Restricted Reserve (FY15 - FY20)	$1,121,100	
Ending Fund Balance *** (June 30, 2020)	**-$211,800**	**-0.9%**

The Bethesda PLD fund is projected to go into deficit by the end of FY20.

* Includes transfers to the General Fund for indirect costs and technology modernization
** Excludes the $1.5 million FY15 transfer from the Silver Spring PLD
*** Fund Balance adjusted to account for Bond Restricted Reserve

2. Fiscal Condition of the Montgomery Hills PLD

Summary tables displaying the FY15 and projected FY15-FY20 Montgomery Hills PLD fund revenues and expenditures appear on the next page.

FY15 Fiscal Condition: The Montgomery Hills PLD began the current fiscal year with a fund balance percentage of 35.4%. Based on revenue and expenditure assumptions in the approved Fiscal Plan, this percentage is projected to rise to 36.4% by the end of FY15. The increase in the fund balance percentage is a result of projected FY15 revenues exceeding expenditures by $6,600.

Six-Year Outlook: The Montgomery Hills PLD fund is projected to experience a decline in its fund balance percentage from 36.4% to 24.4% by the end of FY20. The anticipated reduction in the fund balance percentage is a result of projected expenditures (particularly operating expenses) growing at a faster rate than projected revenues.

Montgomery Hills PLD - Summary Assessment: The Montgomery Hills PLD currently is in sound fiscal condition. Although the enterprise fund's fiscal condition is projected to deteriorate a bit over the next five years, a small adjustment in revenues or expenditures would be sufficient to maintain stability. For example, a reduction in expenditures of about $3,000 per year (a bit more than half of the annual transfer to the Silver Spring Regional Services Center) would be sufficient to stabilize the fund balance percentage.

Montgomery Hills

Parking Lot District

Total Spaces: 129

FY15 Budgeted Revenues and Expenditures

	FY15 Revenues		
	$ Amount	**$ Per Space**	**% of Total**
Parking Fees	$52,000	$403	32.5%
Parking Fines	$25,000	$194	15.6%
Property Taxes	$82,800	$642	51.8%
Miscellaneous	$0	$0	0.0%
TOTAL	**$159,800**	**$1,239**	**100.0%**

	FY15 Expenditures		
	$ Amount	**$ Per Space**	**% of Total**
Operating Expenses *	$148,200	$1,149	96.7%
Capital Expenditures	$0	$0	0.0%
Debt Service	$0	$0	0.0%
Transfers	$5,000	$39	3.3%
TOTAL	**$153,200**	**$1,188**	**100.0%**

FY15 budgeted revenues exceed budgeted expenditures by $6,600 (4%).

Six-Year (FY15-FY20) Projected Fiscal Condition

	$ Amount	**Fund Balance as Percent of Resources**
Beginning Fund Balance (July 1, 2014)	**$73,800**	**35.4%**
Total Six-Year Revenues (FY15 - FY20)	$1,002,500	
Total Six-Year Expenditures (FY15 - FY20)	$1,020,400	
Ending Fund Balance (June 30, 2020)	**$55,900**	**24.4%**

The Montgomery Hills PLD fund is projected to decrease from 35% to 24% over the next six years.

* Includes transfers to the General Fund for indirect costs and technology modernization

3. Fiscal Condition of the Silver Spring PLD

Summary tables displaying the FY15 and projected FY15-FY20 Silver Spring PLD fund revenues and expenditures appear on the next page.

<u>FY15 Fiscal Position</u>: The Silver Spring PLD began the current fiscal year with a fund balance percentage of 54.5%. For FY15, the fund has a near balance of revenues and expenditures with budgeted expenditures slightly exceeding projected revenues. The Fiscal Plan shows the Silver Spring PLD fund balance percentage dipping to 46.8% by the end of the fiscal year. However, this decline is almost entirely a product of the $1.5 million loan to the Bethesda PLD fund. Absent the loan (that is scheduled to be repaid in FY16), the end-of-FY15 projected Silver Spring PLD fund balance percentage would be 52.0%.

<u>Six-Year Condition</u>: Following repayment of the $1.5 million loan to the Bethesda PLD next year, the Silver Spring PLD enterprise fund is projected to end FY16 with a robust 58.1% fund balance percentage. The fund will retain a fund balance percentage well above 50% throughout the next six years as cumulative FY15-FY20 expenditures are projected to nearly equal cumulative revenues for the same period.

Last year, the County Executive recommended that the Silver Spring PLD reimburse the General Fund for $16.6 million in outstanding debt service payments on revenue bonds issued by the Maryland Economic Development Corporation (MEDCO) for the construction of two garages in Silver Spring. The Executive recommended spreading out the reimbursement over an eight year period extending through FY22. The Council deferred a decision on this recommendation pending further review of the fiscal health of all PLD enterprise funds.

<u>Silver Spring PLD - Summary Assessment:</u> The Silver Spring PLD fund is the most fiscally healthy and stable of the four PLD funds. Projected PLD expenditures are well balanced with projected revenues. Moreover, the fund enjoys a high fund balance percentage that should be more than sufficient to satisfy operating and capital obligations for several years even in the event of an unexpected downturn in revenue generation. Indeed, the projected continuing high fund balance may eventually be cause to consider whether actions should be taken to scale back Silver Spring revenue generation. However, two factors – the possible increase in the number of PLD property tax exemptions and the disposition of outstanding MEDCO debt service costs – could reduce the Silver Spring PLD enterprise fund balance and thereby warrant a reassessment of the fund's fiscal condition.

Silver Spring
Parking Lot District

Total Spaces: 11,648

FY15 Budgeted Revenues and Expenditures

	FY15 Revenues		
	$ Amount	**$ Per Space**	**% of Total**
Parking Fees	$10,550,000	$906	51.1%
Parking Fines	$2,256,300	$194	10.9%
Property Taxes	$7,808,400	$670	37.9%
Miscellaneous	$13,500	$1	0.1%
TOTAL	**$20,628,200**	**$1,771**	**100.0%**

	FY15 Expenditures		
	$ Amount	**$ Per Space**	**% of Total**
Operating Expenses *	$12,396,500	$1,064	58.3%
Capital Expenditures	$3,225,000	$277	15.2%
Debt Service	$0	$0	0.0%
Transfers **	$5,659,200	$486	26.6%
TOTAL	**$21,280,700**	**$1,827**	**100.0%**

FY15 budgeted expenditures exceed budgeted revenues by $0.7 million (3%).

Six-Year (FY15-FY20) Projected Fiscal Condition

	$ Amount	**Fund Balance as Percent of Resources**
Beginning Fund Balance (July 1, 2014)	**$15,574,20**	**54.5%**
Total Six-Year Revenues (FY15 - FY20)	$136,558,900	
Total Six-Year Expenditures (FY15 - FY20)	$132,125,800	
Ending Fund Balance (June 30, 2020)	**$20,007,30**	**56.2%**

The Silver Spring PLD fund is projected to increase from 54% to 56% over the next six years.

* Includes transfers to the General Fund for indirect costs and technology modernization
** Excludes the $1.5 million FY15 transfer to the Bethesda PLD

4. Fiscal Condition of the Wheaton PLD

Summary tables displaying the FY15 and projected FY15-FY20 Wheaton PLD fund revenues and expenditures appear on the next page.

FY15 Fiscal Position: The Wheaton PLD began the current fiscal year with a fund balance percentage of 38.7%. By the end of FY15, the percentage is projected to slip to 34.9% as budgeted expenditures exceed anticipated revenues by $129,400.

Transfers to other funds comprise about one-quarter of Wheaton PLD expenditures, a slightly smaller relative contribution than provided by the Bethesda and Silver Spring PLDs. As detailed in Chapter 4, the Bethesda and Silver Spring PLDs transfer sufficient funds as necessary to achieve a 2.5% fund balance for the Bethesda and Silver Spring Urban District; the Wheaton PLD transfers an amount less than required to achieve a 2.5% fund balance for the Wheaton Urban District. Several years ago, the County relieved the Wheaton PLD from the 2.5% Urban District fund balance standard in order to improve the fiscal condition of the PLD enterprise fund.

Six-Year Condition: In contrast to the one-year experience of FY15, cumulative FY15-FY20 Wheaton PLD revenues are projected to outpace expenditures. As a result, the fund balance percentage is expected to increase from 38.7% to 40.7% by the end of FY20. The Fiscal Plan assumes that the Wheaton PLD will continue to transfer funds to the Wheaton Urban District at an amount less than necessary to achieve a 2.5% fund balance.

The Wheaton PLD Fiscal Plan includes assumptions of new revenues and expenditures associated with redevelopment of Lot 13 (Triangle Lane) beginning in FY19. As actual revenues and expenditures from the new garage will not be known until after the facility opens, a higher than usual level of uncertainty exists in the later year fiscal projections for the Wheaton PLD enterprise fund.

Wheaton PLD - Summary Assessment: The Wheaton PLD has a healthy fund balance and is projected to retain a strong fund balance in future years. Current and projected future year expenditures are well balanced with revenues creating a stable fiscal standing for the PLD fund. This stability is a result, in part, of past year decisions to adjust the amount of transfers to other funds to address Wheaton PLD fund balance requirements. Wheaton redevelopment including the construction of a new garage will affect future year revenues and expenditures.

Wheaton

Parking Lot District

Total Spaces: 1,470

FY15 Budgeted Revenues and Expenditures

	FY15 Revenues		
	$ Amount	**$ Per Space**	**% of Total**
Parking Fees	$925,200	$629	47.4%
Parking Fines	$546,000	$371	28.0%
Property Taxes	$480,800	$327	24.6%
Miscellaneous	$500	$0	0.0%
TOTAL	**$1,952,500**	**$1,328**	**100.0%**

	FY15 Expenditures		
	$ Amount	**$ Per Space**	**% of Total**
Operating Expenses *	$1,407,600	$958	67.6%
Capital Expenditures	$157,000	$107	7.5%
Debt Service	$0	$0	0.0%
Transfers	$517,300	$352	24.8%
TOTAL	**$2,081,900**	**$1,416**	**100.0%**

FY15 budgeted revenues exceed budgeted revenues by $129,400 (6%).

Six-Year (FY15-FY20) Projected Fiscal Condition

	$ Amount	**Fund Balance as Percent of Resources**
Beginning Fund Balance (July 1, 2014)	**$935,200**	**38.7%**
Total Six-Year Revenues (FY15 - FY20)	$12,876,500	
Total Six-Year Expenditures (FY15 - FY20)	$12,500,800	
Ending Fund Balance (June 30, 2020)	**$1,310,900**	**40.7%**

The Wheaton PLD fund is projected to increase from 39% to 41% over the next six years.

* Includes transfers to the General Fund for indirect costs and technology modernization

C. Comparison of Bethesda and Silver Spring PLD Funds

The Bethesda and Silver Spring PLDs are significantly larger than the Montgomery Hills and Wheaton PLDs measured both in terms of size of budget and number of spaces. Given the considerable variation in scale, the two smaller PLDs are not easily comparable to the two larger PLDs. This section compares the fiscal characteristics of the County's two largest PLDs, Bethesda and Silver Spring.

1. Revenue Comparison

The Bethesda and Silver Spring PLDs receive revenues from the identical sources: parking fees, parking fines, property taxes, and miscellaneous sources (see Chapter 4). Nonetheless, the revenue structure of the two districts differs from one another as explained below.

a. Relative Contribution of Different Revenue Sources

The four revenue sources supply funds to the Bethesda and Silver Spring PLDs in different proportions. The Bethesda PLD is much more dependent on parking fees than is Silver Spring. As shown in the table below, parking fees comprise 64.2% of FY15 Bethesda PLD revenues. In contrast, parking fees contribute 51.1% of Silver Spring PLD revenues. The Bethesda PLD also collects 22.2% of its revenue from parking fines, more than double the contribution of fines to the Silver Spring PLD. On the other hand, the Silver Spring PLD is more reliant on property tax funding than is Bethesda. Silver Spring receives 37.9% of its funding from property taxes compared to only 12.1% for Bethesda.

Percent of Total FY15 PLD Revenues by Revenue Type

	Bethesda PLD	Silver Spring PLD
Parking Fees	64.2%	51.1%
Parking Fines	22.2%	10.9%
Property Taxes	12.1%	37.9%
Miscellaneous	1.6%	0.1%

Another way to understand the contrasting funding structures of the Bethesda and Silver Spring PLDs is to examine the ratio of parking fees to property tax revenues. This measure shows the amount of parking fees generated for each dollar of property tax paid. As shown in the table below, in FY15, Bethesda parkers are projected to pay $5.32 in fees for every dollar paid by Bethesda property owners for special PLD property tax. In Silver Spring, parkers contribute only $1.35 for each property tax dollar paid. The comparison of these ratios further demonstrates how the Bethesda PLD relies on fee revenues to a much greater extent than the Silver Spring PLD.

Ratio of FY15 PLD Parking Fee Revenues to Property Tax Revenues

	Bethesda PLD	**Silver Spring PLD**
Parking Fee Revenues	$13,989,700	$10,550,000
PLD Property Tax Revenues	$2,629,800	$7,808,400
Amount Raised from Parking Fees per $1 of Property Tax Revenue	$5.32	$1.35

b. Property Tax Revenue as Percent of Assessable Base

An alternative method to measure the relative contribution of PLD property taxes by district is to compare property tax revenue as a percent of assessable base. The table below shows FY15 projected PLD property tax generation as a percent of the total assessable base (for both real and personal property) in Bethesda and Silver Spring. Here, too, Silver Spring PLD property tax payers contribute a far greater percentage of their assessable base than do Bethesda PLD property tax payers. Silver Spring PLD tax revenues as a percent of assessable base is about two-and-a-half times greater than in Bethesda.

FY15 PLD Property Tax Revenues as Percent of PLD Assessable Base

	Bethesda PLD	**Silver Spring PLD**
Total Assessable Base (real and personal property)	$1,740,700,000	$2,143,000,000
PLD Property Tax Revenues	$2,629,800	$7,808,400
Property Tax Revenues as a Percent of Assessable Base	0.151%	0.364%

c. Parking Fee and Property Tax Revenue per Parking Space

Bethesda and Silver Spring PLD revenues help provide and maintain more than 19,000 parking spaces. As shown in the table below, in FY15, Bethesda PLD parking fees will generate $1,863 per space, more than double the $906 in parking fees raised per space in Silver Spring. Conversely, the $670 in property taxes per space raised in Silver Spring is nearly double the per space amount collected in Bethesda. These data further verify the variance in the revenue structures of the two districts – Bethesda has a greater dependence than Silver Spring on fees, Silver Spring has a greater dependence on property taxes.

FY15 Parking Fees and Property Taxes per Parking Space

	Bethesda PLD	Silver Spring PLD
Number of Parking Spaces	7,511	11,648
Parking Fees per Space	$1,863	$906
Property Taxes per Space	$350	$670

d. Parking Fee and Property Tax Rates

The disparity in the funding structures of the Bethesda and Silver Spring PLDs in large part is a function of the divergent rate structures in the two districts. In short, the Bethesda PLD raises a larger portion of its revenue from parking fees than Silver Spring because current parking rates in Bethesda generally are higher than in Silver Spring. In addition, the requirement to pay for parking extends for longer hours in Bethesda than in Silver Spring (see Chapter 2). While the fee structures in the two districts are not completely comparable, the table below illustrates some differences in similar types of parking rates.

FY15 Parking Lot District Rates

	Bethesda PLD	Silver Spring PLD
Hourly Parking	On-Street: $2.00/hr. Parking Lot: $1.25/hr. Parking Garage: $0.80/hr.	< 4 hours: $1.00/hr. 4+ hours: $0.65/hr.
Daily Permit	$12.00/day	$7.80/day
Single Occupant Monthly Permit	$150/month	$123/month
2-Person Carpool Monthly Permit	$107/month	$87/month

Property taxes contribute a greater portion of revenue in Silver Spring than in Bethesda because property tax rates are higher in Silver Spring. The table below compares real property tax rates for the two districts and shows that the rate in Silver Spring is two-and-a-half times greater than in Bethesda.[6]

FY15 Parking Lot District Real Property Tax Rates
(per $100 of assessed value)

	Bethesda PLD	Silver Spring PLD
Property Used for Commercial or Industrial Purposes	$0.124	$0.317
Property Zoned for Commercial or Industrial Purposes but Used for other Purposes	$0.062	$0.158

For many years through FY10, the Bethesda PLD real property rate (for property used for commercial or industrial purposes) was $0.280 per $100 of assessed value. In FY10, the Council approved a decrease in the real property tax rate to $0.104 along with concurrent increases in Bethesda parking fees.[7] The reduction in the Bethesda PLD property tax rate allowed for an increase in the Mass Transit property tax rate to raise sufficient funds to preserve Ride On service levels within the constraints of the charter limit.

2. Expenditure Comparison

As detailed below, expenditure patterns differ between the Bethesda and Silver Spring PLDs.

a. Relative Allocation of Expenditures

A disparity in annual operating payments for capital projects render the budgets of the Bethesda and Silver Spring PLDs dissimilar. Both districts expend current revenue for facility renovation and facility planning projects. However, the Bethesda PLD allocates nearly 20% of its expenditures for debt service payments to retire Garage 31 revenue bonds; the Silver Spring PLD has no current debt service obligations. The presence of a large debt service obligation is the primary reason that Bethesda PLD operating expenses comprise only 41.9% of total expenditures. The two districts transfer a similar percentage of total expenditures to other funds.

[6] Similarly, the personal property tax rate in the Silver Spring PLD is two-and-a-half times greater than the rate in the Bethesda PLD.
[7] The Council increased the Bethesda real property tax to its current rate of $0.124 beginning in FY13.

Percent of Total FY15 PLD Expenditures by Expenditure Type

	Bethesda PLD	Silver Spring PLD
Operating Expenses	41.9%	58.3%
Capital Expenditures (Current Revenue)	9.3%	15.2%
Debt Service Payments	19.9%	0.0%
Transfers to Other Funds	28.9%	26.6%

b. Expenditures per Space

The Bethesda PLD will expend $3,311 per space in FY15, an amount 81% greater than the Silver Spring PLD per space expenditure of $1,827. On a per space basis, Bethesda expends more than Silver Spring for each expenditure category. Debt service payments account for the largest discrepancy in per space costs. The Bethesda PLD expends $660 per space for debt service payments to retire Garage 31 revenue bonds while the Silver Spring PLD has no current debt service obligations. In addition, the Bethesda PLD expends more than $300 per space more on operating expenses than does Silver Spring. Moreover, per space transfers from the Bethesda PLD to other funds are about twice the amount transferred per space from the Silver Spring PLD. (See Chapter 4 for detailed information about transfers to other funds).

FY15 PLD Expenditures per Parking Space

	Bethesda PLD	Silver Spring PLD
Number of Parking Spaces	7,511	11,648
Overall Expenditures per Space	**$3,311**	**$1,827**
Operating Expenses per Space	$1,386	$1,064
Capital Expenditures (Current Revenue) per Space	$309	$277
Debt Service Payments per Space	$660	$0
Transfers to Other Funds per Space	$956	$486

CHAPTER 6. OLO FINDINGS AND RECOMMENDATIONS

This chapter summarizes the major findings of this report and presents the recommendations of the Office of Legislative Oversight (OLO) based on the findings. This chapter further presents options to maintain long-term PLD fiscal stability and discusses the policy trade-offs involved in evaluating the options. This chapter includes four sections:

- Section A. Summary of Findings
- Section B. OLO Recommendations
- Section C. Options to Maintain Long-Term PLD Fiscal Stability
- Section D. Policy Trade-Offs

A. Summary of Findings

The major findings of this report include:

Parking Lot District Fund Policies (Chapter 3)

- *As enterprise funds, the PLDs should generate sufficient revenue on an on-going basis to cover the debt service, operating, and capital costs of providing parking in the four districts.*
- *Long established County policy permits use of PLD fund for certain specified non-PLD programs. However, the Code does not address the relative priority of using PLD funds for parking-related purposes as opposed to transferring these resources for other purposes. Moreover, no standard or policy exists (other than year-to-year budget decisions) to adjust the amount of annual PLD transfers to account for the availability of resources.*
- *The approved Fiscal Policy states that "[t]he County will, through pricing, inventory control, and other management practices, ensure appropriate fund balances for its enterprise funds while obtaining full cost-recovery for direct and indirect government support." However, no PLD fund balance policy appears in any County budget document.*

Parking Lot District Revenues and Expenditures (Chapter 4)

- *The relative contributions of the four PLD revenue sources vary significantly among the four districts. In Bethesda, FY15 parking fees will provide nearly two-thirds (64%) of the PLD's revenue, more than five times the revenue raised from property taxes (12%). In contrast, parking fees will provide about half (51%) of FY15 Silver Spring PLD revenue with property taxes supplying 37.9% of the district's revenues.*
- *PLD revenues are relatively stable and predictable. Miscellaneous revenue is the most volatile form of PLD revenue. In Bethesda and Silver Spring, proceeds from the sale of PLD property or a bond issuance have generated one-time spikes in miscellaneous revenue.*

- *In all four PLDs, operating expenses constitute the largest FY15 expenditure category.*
- *The Bethesda PLD expends 29% of its resources on transfers to other funds; the Silver Spring PLD expends 27% of its resources on transfers.*
- *PLD funds constitute the primary revenue source for the urban districts. As budgeted in FY15, PLDs will provides 82% of Bethesda Urban District resources; 74% of Silver Spring Urban District resources; and 64% of Wheaton Urban District resources.*
- *The Bethesda and Silver Spring transportation management districts (TMD) are heavily dependent on PLD transfers. As budgeted in FY15, PLDs will provide 71% of Bethesda TMD resources and 94% of Silver Spring TMD resources.*
- *The County Code is ambiguous as to whether PLD fine revenues may be transferred to the Mass Transit Fund.*

Fiscal Condition of Parking Lot District Funds (Chapter 5)

- *The Bethesda PLD fund faces serious structural challenges that will cause the fund to fall into deficit unless corrective actions are taken. Under current policies and practices, the fund will annually spend more than it receives in revenues driving its already precariously low fund balance toward zero. The extent of on-going structural deficiencies in the Bethesda PLD fund is masked by projected infusions of one-time revenues that cannot be expected to continue in the future. Moreover, a significant increase in the number of PLD property tax exemptions could further deplete PLD revenues and exacerbate the fund's financial troubles.*
- *The Montgomery Hills PLD currently is in sound fiscal condition.*
- *The Silver Spring PLD fund is the most fiscally healthy and stable of the four PLD funds. Projected PLD expenditures are well balanced with projected revenues. However, two factors – the possible increase in the number of PLD property tax exemptions and the disposition of outstanding MEDCO debt service costs – could reduce the Silver Spring PLD enterprise fund balance and thereby warrant a reassessment of the fund's fiscal condition.*
- *The Wheaton PLD has a healthy fund balance and is projected to retain a strong fund balance in future years. This stability is a result, in part, of past year decisions to adjust the amount of transfers to other funds to address Wheaton PLD fund balance requirements. Wheaton redevelopment including the construction of a new garage will affect future year revenues and expenditures.*
- *The revenue structures of the Bethesda and Silver Spring PLDs differ significantly. Bethesda is more dependent than Silver Spring on fees paid by parkers, Silver Spring has a greater dependence on property taxes. Bethesda parkers pay $5.32 in fees for every dollar paid by Bethesda property owners for the special PLD property tax. In Silver Spring, parkers contribute only $1.35 for each property tax dollar paid. The disparity in the funding structures is a function of the rate structure in the two districts. Parking rates are higher in Bethesda than in Silver Spring; property tax rates are two-and-a-half times higher in Silver Spring than in Bethesda.*
- *The Bethesda PLD allocates nearly 20% of its expenditures to retire revenue bond debt service payments; the Silver Spring PLD has no current debt service obligations.*

B. OLO Recommendations

OLO offers the following four recommendations for Council consideration.

Recommendation #1: Approve a PLD fund balance policy; require that future year budgets and fiscal plans comply with the fund balance policy.

A fund balance policy specifies an amount of resources to be left in reserve to allow the program to meet its operating obligations in the event of unforeseen revenue shortfalls or cost increase. The County's Fiscal Policy recognizes the need to assure that enterprise funds maintain a sufficient fund balance by stating that the County "will, through pricing, inventory control, and other management practices, ensure appropriate fund balances for its enterprise funds while obtaining full cost-recovery for direct and indirect government support."

No PLD fund balance policy appears in any County budget document. A 2002 memorandum to the Council's Transportation and Environment Committee stated the Executive's policy was that the unrestricted fund balance for each PLD enterprise fund should be at least 50% of the projected operating expenses for the subsequent fiscal year. However, this policy statement seems to have had minimal effect on recent year budgets. For example, the current year fund balance for the Bethesda PLD is well below the standard presented in 2002 and is projected to fall below zero by FY20.

OLO recommends that the Council adopt a policy that sets a target fund balance percentage (that is, available end-of-year balances measured as a percent of total annual enterprise fund resources) for the PLDs. The purpose of a fund balance policy is to assure that each PLD fund has sufficient resources to meet its debt service, operating, and capital budget obligations and to protect against unanticipated revenue shortfalls or cost increases. OLO suggests that the fund balance policy measure available resources in the end-of-year balance excluding resources that are held in restricted reserve and are functionally unavailable for use (such as the current Bethesda revenue bond restricted reserve). **If a PLD fund balance is projected to deviate significantly from the target, the County would then take corrective measures – adjustments to revenues and/or expenditures – to comply with the policy.**

OLO advises that budgetary adjustments made to comply with the fund balance policy should be made in the context of the long-term fiscal condition of the enterprise funds. Changes in revenues or expenditures need not be made if the fund balance percentage for a single fiscal year deviates significantly from the target level. A temporary deviation of this sort could be caused by a one-time event (such as a land sale or a large non-recurring expense) but is not necessarily an indication of on-going fiscal instability. Rather, **OLO recommends that budgetary adjustments be made when multi-year projections point to an on-going trend away from the fund balance target**.

Determining the optimal target fund balance percentage for an enterprise fund is not an exact science. Nonetheless, establishment of this target is an important and necessary tool for preserving the on-going fiscal health of an enterprise fund. **Based on our review of annual variations in PLD operating budgets, OLO recommends that the Council adopt a policy to maintain a 30% fund balance percentage for PLD enterprise funds.**

Recommendation #2: Amend the County Code to clarify the conditions for transferring resources from a PLD enterprise fund.

Chapter 60 of the County Code authorizes the transfer of resources from PLD enterprise funds to other funds for certain specified purposes. However, the Code does not address the relative priority of using PLD funds for parking-related purposes as opposed to other purposes. The Code sets forth no prerequisite conditions for the transfer of PLD funds to non-PLD programs. More specifically, no standard exists (other than year-to-year budget decisions) to adjust the amount of annual PLD transfers to account for the availability of resources.

The FY15 operating budget as well as the current PLD Fiscal Plans assume constant or increasing annual transfers to other funds. This is the case even for the Bethesda PLD which has a perilously low fund balance and annual expenditures (including transfers) that well exceed revenues. **OLO recommends that the Council amend the County Code to specify that parking related debt service, operating, and capital obligations must be the primary uses of PLD resources. Further, the Code should restrict transfers from enterprise funds to available resources in excess of the fund balance target after all parking related obligations have been fulfilled.**

The County Code is ambiguous as to whether the current practice of transferring PLD fine revenues to the Mass Transit Fund is permissible. Chapter 60 of the Code restricts the use of PLD "special taxes and fees" for PLD-related purposes. The Code does not mention fine revenues in this restriction on the use of PLD resources. However, the use of PLD fine revenue is explicitly mentioned in Chapter 31 of the Code. Chapter 31 excludes fee revenue from General Fund use and states that "all parking … fines … within a parking lot district … shall be applied to said district." OLO recommends that the Council amend the County Code to clarify whether PLD fine revenue may be transferred to the Mass Transit Fund. Specifically, **OLO recommends amending the Code to allow the transfer of any PLD resources to the Mass Transit Fund subject to the availability of resources and consistent with fund balance requirements.**[1]

Recommendation #3: Request the Executive Branch recalculate projected PLD property tax revenues to account for properties newly exempted from the tax.

Property taxes have been a stable and mostly predictable source of revenue for the parking lot districts. However, future year PLD property tax revenue generation may experience significant volatility in the next year. Recent amendments to Zoning Ordinance parking requirements likely will result in additional properties becoming eligible for a PLD property tax exemption. The fiscal impact of this change is unknown as the Executive Branch does not possess adequate data to determine which properties will become eligible for the property tax exemption. As a result, PLD revenues for FY16 and beyond could vary greatly from current projections. Revenue projections based on current zoning requirements is a critical prerequisite for meaningful PLD fiscal planning. April 15, 2015 is the first application deadline for the property tax exemption under the revised parking standards. **OLO recommends that the Council request the Executive Branch recalculate PLD property tax revenue projections in light of the revised parking requirements and submit the updated projections to the Council no later than June 15, 2015.** The Executive's submission should assess the volatility of future year PLD tax generation given the new parking requirements. In addition, the Executive should inform the Council on efforts to notify property owners of their potential eligibility for the tax exemption.

[1] The recommendation to amend the Code to permit transfers to the Mass Transit Fund would become moot if the Council elects to limit PLD expenditures to parking-related functions exclusively (Option #3 on page 49).

Recommendation #4: Develop a plan for the long-term fiscal stability of the PLD enterprise funds; solicit public comments on methods for achieving long-term PLD fiscal stability.

Current fiscal management and budgeting practices expose the PLD enterprise funds to potential instability and resource shortfalls. Under the existing PLD fiscal structure, no established process exists to assure that the enterprise funds retain sufficient resources to meet long-term obligations. Rather, the County has made a series of one-year adjustments through the annual operating budget to temporarily address PLD funding needs. Annual budget decisions rarely have addressed the long-term structural conditions of the PLD enterprise funds.

Absent a long-term plan, the County will be unable to assure the on-going maintenance of sufficient PLD enterprise fund reserves to fulfill debt service and operating obligations in the event of unforeseen revenue decreases or cost increases. The projected deficit currently facing the Bethesda PLD enterprise fund can be corrected through a plan to assure that – over the long-term – anticipated revenues meet or exceed planned expenditures. A similar approach will safeguard the other PLDs from encountering future deficits.

OLO recommends that the Council review the fiscal condition of the PLD enterprise funds with the intent on developing a long-term plan for their on-going stability. On the following pages, **OLO presents five alternative options to maintain long-term fiscal stability to the PLD enterprise funds**. The first three options assume retention of the current PLD revenue and expenditure structures. The next two options involve changes to current PLD fiscal structures.

Each option presented below has both advantages and disadvantages. OLO recognizes that an attribute of any of the options may be regarded as an advantage by one set of stakeholders while simultaneously viewed as a disadvantage by others. Before adopting a long-term plan, the Council needs to hear the concerns of all parties who may be affected by changes to the PLD structures and budgets. **OLO suggests that – as part of its development of a long-term plan – the Council should solicit public comments on existing PLD fund conditions and alternative methods to correct fiscal deficiencies.**

OLO acknowledges that implementation of a long-term plan cannot be achieved until FY17 at the earliest. First, as mentioned in the previous recommendation, updated PLD revenue projections (based on properties newly exempted from the property tax) could alter the fiscal conditions of the enterprise funds. In addition, the Council will need sufficient time to consider the ramifications of each option not only on the PLDs but also on the budgets of the urban districts, the transportation management districts, and the Mass Transit Fund.

Finally, the Council may elect to phase-in implementation of the selected option over multiple years to allow for a more gradual transition period for potentially large budget adjustments.

C. Options to Maintain Long-Term PLD Fiscal Stability

OLO Recommendation #4 suggests that the County should develop a plan for the long-term fiscal stability of the PLD enterprise funds. OLO offers the following alternative options as model approaches to achieve the goal of PLD fiscal stability.

OPTION 1.a: RETAIN EXISTING PLD FISCAL STRUCTURE – ADJUST SPENDING AND/OR REVENUE GENERATION TO COMPLY WITH FUND BALANCE POLICY

Under this option, the general fiscal structure of the PLD enterprise funds would remain unchanged. The County would set annual budgets for the PLD enterprise funds with projected revenues and expenditures determined in the context of a fund balance policy. The policy would establish a target end-of-year PLD fund balance measured as a percent of total annual enterprise fund resources (hereafter "fund balance percentage"). In the event that the balance for a PLD enterprise fund is projected to fall below the targeted level, the County would undertake one or both of the following measures to restore fiscal stability.

- **Adjust Transfers based on Resource Availability:** The current Fiscal Plans for each of the four PLDs assume constant or increasing annual transfers to support the urban district, transportation management, and transit services. As an alternative to this practice, the County could limit the annual total transfer to the amount of money left in an enterprise fund after debt service, operating, and capital obligations have been met and sufficient resources have been set aside to comply with the fund balance policy.

- **Increase Rates:** The County could increase parking fee, parking fine, or property tax rates to generate sufficient revenues to meet parking-related obligations, comply with the fund balance policy, and continue constant or increasing transfers for non-PLD purposes. The charter limit could affect the County's ability to increase PLD property tax rates.

Under certain circumstances a PLD enterprise fund may have resources in excess of the fund balance policy requirements. In these instances, the County could take measures to decrease the fund balance percentage.

- **Reduce Fund Surplus:** When annual enterprise fund revenues exceed expenditures on a recurring basis, a PLD could build up a fund balance well in excess of policy requirements. In such a case, the County could lower parking fee, parking fine, or property tax rates (or hold these rates constant over time against inflation) to bring down the enterprise fund balance to the target level.

OPTION 1.b: RETAIN EXISTING PLD FISCAL STRUCTURE – AMEND THE CHARTER TO EXEMPT PLD TAXES FROM THE CHARTER LIMIT

This option is identical to the previous option but would also include a charter amendment exempting PLD property taxes from the charter limit. An amendment of this sort would allow the County to increase PLD property tax rates without requiring a corresponding reduction in revenue generation from another type of property tax.

The table below summarizes how Options 1.a and 1.b would apply to each PLD under current fiscal conditions and assuming a fund balance target of 30% of annual resources.

OPTIONS 1.a & 1.b **RETAIN EXISTING PLD FISCAL STRUCTURE – ADJUST SPENDING AND/OR REVENUE GENERATION TO COMPLY WITH FUND BALANCE POLICY**	
Bethesda	The Bethesda PLD has a perilously low fund balance reserve. The enterprise fund could achieve a 30% fund balance percentage by FY20 by reducing projected annual transfers by about one-fifth. Alternatively, a doubling of the Bethesda PLD property tax rate would generate sufficient revenue to achieve a 30% fund balance percentage in about five years.[2] (PLD property tax rates are two-and-a-half times higher in Silver Spring than in Bethesda). The 30% fund balance percentage could also be achieved through a combination of transfer reductions and property tax increases. However, budget adjustments needed to achieve the target fund balance could vary if there is a significant increase in the number of properties exempted from the PLD property tax.
Montgomery Hills	The fund balance percentage for the Montgomery Hills PLD currently is at 35% and is projected to gradually decline to 24% by FY20. The enterprise fund could maintain a 30% fund balance percentage by reducing the annual transfer to the Silver Spring Regional Services Center or by very minor increases in parking fee, fine, and/or property tax rates.
Silver Spring	The Silver Spring PLD has a fund balance percentage above 50%. Should the fund balance remain well above the target level, reductions in parking fee, fine, and/or property tax[2] rates may be warranted as the current revenue stream is more than sufficient to meet operating and capital obligations, continue transfers to other funds and maintain a healthy fund balance. However, the capacity to reduce Silver Spring PLD revenues will remain uncertain until more information is known about a possible increase in the number of PLD property tax exemptions and the disposition of outstanding MEDCO debt service costs.
Wheaton	The Wheaton PLD is projected to maintain a fund balance percentage between 34% and 40% through FY20. Should actual budget performance come close to projections, then no adjustments would be needed to either revenues or expenditures (including transfers) to achieve a 30% fund balance percentage.

[2] Under the charter limit, an increase in Bethesda PLD property tax revenue generation could trigger a corresponding reduction in revenue generation from the general County property tax or from another property tax such as the Silver Spring PLD property tax.

OPTION 2: RETAIN EXISTING PLD FISCAL STRUCTURE – PROVIDE GENERAL FUND SUPPORT TO ASSURE COMPLIANCE WITH FUND BALANCE POLICY

Under this option, the General Fund would provide supplemental assistance to a PLD enterprise fund that lacks sufficient resources to meet parking-related obligations, continue (or increase) current transfer amounts to other funds, and meet fund balance requirements.

The table below summarizes how this option would apply to each PLD under current fiscal conditions and assuming a fund balance target of 30% of annual resources.

OPTION 2 RETAIN EXISTING PLD FISCAL STRUCTURE – PROVIDE GENERAL FUND SUPPORT TO ASSURE COMPLIANCE WITH FUND BALANCE POLICY	
Bethesda	Based on current Fiscal Plan projections, the Bethesda PLD could preserve future year projected spending levels and achieve a 30% fund balance percentage by FY20 by receiving transfers from the General Fund of about $1.5 million per year.
Montgomery Hills	Based on current Fiscal Plan projections, the Montgomery Hills PLD could preserve future year projected spending levels and achieve a 30% fund balance percentage by FY20 by receiving transfers from the General Fund of about $3,000 per year.
Silver Spring	Based on current Fiscal Plan projections, the Silver Spring PLD could preserve future year projected spending levels and still maintain a fund balance percentage above the target level at least through FY20 without any support from the General Fund.
Wheaton	Based on current Fiscal Plan projections, the Wheaton PLD could preserve future year projected spending levels and still maintain a fund balance percentage above the target level at least through FY20 without any support from the General Fund.

OPTION 3: LIMIT PLD EXPENDITURES TO PARKING-RELATED FUNCTIONS

This option would require amendments to the County Code to restrict the use of PLD fee, fine, and property tax revenue to activities directly related to the construction and operation of shared parking facilities within each district. In addition, the Code would be amended to remove authorization for the transfer of PLD resources to any other fund (other than to the General Fund to cover certain indirect costs). With the elimination of transfers, the PLDs would need to raise less revenue than under current practice. As a result, PLD fee, fine, and/or property tax rates could be lowered while still preserving healthy fund balances.

Implementation of this option would greatly impact County Government functions that currently receive funds from the PLDs. The urban districts, transportation management programs, and Ride-On would have to find alternative revenue sources to maintain current levels of service. Nonetheless, reductions in PLD property tax rates would permit a shift in revenue generation capacity to other property taxes under the charter limit. For example, revenue foregone by lowering a PLD property tax rate would permit a corresponding dollar amount increase in the general property tax or in an urban district property tax without breaching the charter limit. The new revenue capacity for the General Fund or the urban districts would generate resources to help offset the loss of transfers from the PLDs.

The urban districts are highly dependent on PLD transfers. In the current year, the Bethesda PLD provides 82% of Bethesda Urban District resources; the Silver Spring PLD provides 74% of Silver Spring Urban District resources; and the Wheaton PLD provides 64% of Wheaton Urban District resources. Fiscal separation of the PLDs and the urban districts could prompt possible re-structuring of urban district programs and funding. A soon-to-be released OLO report will address alternative public sector and private sector methods to provide special services in urban areas. The report will include case studies of urban special service areas (such as "Business Improvement Districts" and "Community Improvement Districts") in other communities.

The table on the following page summarizes how this option would apply to each PLD based on current fiscal plan projections. The table also includes examples of revenue reductions that – in combination with elimination of transfers – would either achieve a 30% fund reserve balance (Bethesda) or maintain current fund balance percentages (Silver Spring and Wheaton).

Option 3 Limit PLD Expenditures to Parking Related Functions	
Bethesda	In FY15, the Bethesda PLD will transfer $7.2 million for non-PLD-related purposes. Based on current projections, eliminating these transfers would lower PLD expenditures by a cumulative $40.5 million in FY16 - FY20. As a result, the PLD fund balance would jump to well over 100% by FY20 if projected revenue generation was not adjusted from current estimates. The elimination of transfers would reduce the need for revenue generation. Assuming no transfers from FY16 and beyond, the enterprise fund could maintain a 30% fund balance percentage by reducing current parking fees by 45%. Alternatively, the 30% target could be achieved through a 40% reduction in fee revenue coupled with a 25% reduction in the property tax rate. (A 25% reduction in the Bethesda PLD property tax rate would create about $700,000 per year in capacity for other property taxes under the charter limit.) However, these calculations are subject to change pending more information on the number of new properties exempted from the PLD property tax.
Montgomery Hills	As transfers comprise only three percent of Montgomery Hills PLD spending, implementation of this option would have minimal effect on the enterprise fund.
Silver Spring	In FY15, the Silver Spring PLD will transfer $5.7 million for non-PLD-related purposes. Based on current projections, eliminating these transfers would lower PLD expenditures by a cumulative $34.2 million in FY16 - FY20. As a result, the PLD fund balance would jump to well over 100% if projected revenue generation was not adjusted from current estimates. Assuming no transfers from FY16 and beyond, the enterprise fund could retain a fund balance percentage at or above its current healthy level and absorb a 30% reduction in current parking fees as well as a 40% reduction in the property tax rate. (A 40% reduction in the Silver Spring PLD property tax rate would create $3.5 million per year in capacity for other property taxes under the charter limit.) However, these calculations are subject to change pending more information on the number of new properties exempted from the PLD property tax.
Wheaton	In FY15, the Wheaton PLD will transfer $517,000 for non-PLD-related purposes. Based on current projections, eliminating these transfers would lower PLD expenditures by a cumulative $1.8 million in FY16 - FY20. As a result, the PLD fund balance would jump to almost 100% by FY20 if projected revenue generation was not adjusted from current estimates. Assuming no transfers from FY16 and beyond, the enterprise fund could retain a fund balance percentage at or above its current healthy level and absorb 20% reductions in both parking fees and the property tax rate. (A 20% reduction in the Wheaton PLD property tax rate would create about $100,000 per year in capacity for other property taxes under the charter limit.)

OPTION 4: CREATE A CONSOLIDATED ENTERPRISE FUND FOR THE FOUR PLDS

Currently, the County maintains separate enterprise funds for each of the four County parking lot districts. Under this option, all revenues from the four PLDs would be pooled into a single enterprise fund. All four districts would then draw from this single consolidated enterprise fund to pay for debt service, operating, and capital obligations. The consolidated enterprise fund would be subject to a fund balance policy with a target reserve level necessary to assure sufficient resources to withstand unanticipated revenue shortfalls or cost increases. Transfers from the consolidated enterprise fund for non-PLD purposes would be permitted subject to the availability of resources as specified in the fund balance policy.

Under this option, the County Council would continue to annually set parking fee and fine rates for each district. As is the case today, parking rates could vary by district, by duration, by space location (on-street, lot, or garage), and other factors (carpool, monthly permit, etc.). However, the County Council would set a single PLD property tax rate for all non-exempted properties in all four districts.

If the four PLDs had been combined into a single enterprise fund in FY15, the consolidated fund would have a 27% fund balance ratio at the end of the current fiscal year (based on current fiscal plan projections). Expenditures for the four PLDs combined are projected to surpass combined revenues in FY15. Nonetheless, the Fiscal Plan forecasts show FY15 through FY20 revenues slightly exceeding expenditures for the four districts combined. In other words, anticipated PLD revenues from all districts is sufficient to cover the planned expenditures for all districts while maintaining a fund balance percentage near 30%.

OLO calculated that a consolidated enterprise fund with a single property tax rate of $0.240 (per $100 assessable base) for all four districts would generate about the same total revenue from FY16-FY20 as would be generated by the four districts combined with their current different property tax rates. The table below summarizes how this option would apply to each PLD based on current fiscal plan projections and assuming a single property tax rate of $0.240. Significant changes in the number of new properties exempted from the PLD property tax would alter this calculation.

OPTION 4 **CREATE A CONSOLIDATED ENTERPRISE FUND FOR THE FOUR PLDS**	
Expenditures	Planned expenditures, including transfers, would remain unchanged in all four districts.
Fees / Fines	All fees and fines would remain unchanged in all four districts.
Property Taxes	<u>Tax Rate per $100 Assessable Base</u> Bethesda: Increase from $0.124 to $0.240 (+94%) Montgomery Hills: No change from current rate Silver Spring: Decrease from $0.317 to $0.240 (-24%) Wheaton: No change from current rate

D. Policy Trade-Offs

As previously stated, each option presented above has both advantages and disadvantages. In evaluating the options, policy makers will encounter competing and sometimes contradictory objectives. The different options would have varied effects on different sectors of the community including PLD property owners, businesses, and residents as well as taxpayers, drivers, and transit riders from outside of the PLDs. In reviewing options to maintain long-term PLD fiscal stability, the Council will consider several policy trade-off questions, including:

1. ***Should PLD resources be reserved for parking-related purposes exclusively or should PLD revenue generation support related programs?***

   As with all County revenue sources, the Council must consider and prioritize uses for parking lot district resources. As the PLDs operate as enterprise funds, fees and changes paid by those who use or benefit from the shared parking should cover program costs. Nonetheless, the County has a long history of raising PLD resources in excess of program costs in order to support other related activities such as the urban districts and transportation management. The decision on how to restore fiscal stability to the PLDs necessarily will require a re-assessment of the use of these resources.

2. ***Should the County encourage or discourage commuter parking in commercial districts?***

   The PLDs were created to provide ample public and private parking spaces in County commercial districts. The Zoning Ordinance mandates that developers provide a certain amount of on-site parking while the County simultaneously provides shared parking in public facilities to support properties that do not comply with zoning requirements. In fact, the County provides an economic incentive for developers to provide on-site parking by means of the PLD property tax exemption. However, in recent years, the County has pursued Smart Growth policies intended to promote higher density transit-oriented development. Moreover, the County has implemented transportation management programs intended to discourage (single-occupant) driving to areas such as the Bethesda, Silver Spring, and Wheaton Central Business Districts. Policies regarding public parking pricing and supply inevitably intersect (and possibly diverge) with commercial district land use decisions.

3. ***What factors should be taken into consideration when setting PLD parking rates?***

   Competing pressures converge when deciding the optimal pricing strategy for public parking. Affordable and sufficient public parking supports the economic health of the PLDs. Commercial entities located near PLD facilities benefit from low cost parking that encourages customers and clients to patronize their establishments. In contrast, transportation management and Smart Growth policies often rely on parking pricing and availability as tools to manage congestion. Higher parking prices and constrained availability incentivize transit use over driving. The Council will have to consider these conflicting policy goals as well as the revenue generation requirements when setting PLD parking policies and rates.

4. Should PLD property taxes be subject to the charter limit?

In addition to the PLD property tax, the County levies a general property tax as well as multiple other special property taxes. The County Charter limits – absent a unanimous vote of the Council – real property tax revenue for a given year to the amount collected in the previous year adjusted for inflation and the value of new construction unless there is a unanimous vote of the Council. As a result, any increase in revenue generation from one property tax necessitates a corresponding decrease in revenue generation from a different property tax. This interconnection among all property taxes complicates the County's ability to adjust PLD property tax rates to respond to fiscal challenges.

CHAPTER 7. AGENCY COMMENTS

The Office of Legislative Oversight circulated a final draft of this report to the Chief Administrative Officer and to the Department of Transportation, Department of Finance, and the Office of Management and Budget. OLO appreciates the time taken by Executive Branch staff to review the draft report and provide comments. The final report incorporates technical corrections provided by the Executive Branch.

The written comments received from the Chief Administrative Officer appear on the next page.

OFFICES OF THE COUNTY EXECUTIVE

Isiah Leggett
County Executive

Timothy L. Firestine
Chief Administrative Officer

MEMORANDUM

January 20, 2015

TO: Chris Cihlar, Director, Office of Legislative Oversight

FROM: Timothy L. Firestine, Chief Administrative Officer

SUBJECT: OLO Draft Report 2015-5: Parking Lot District Fiscal Management and Budgeting

Thank you for providing a copy of OLO Draft Report 2015-5, which contains a current analysis of the fiscal condition of each Parking Lot District (PLD) enterprise fund and suggests options to ensure the long-term fiscal stability of the funds.

The analysis provided is very thorough and insightful. The issues of the sources of revenue and their uses are clearly detailed. The options presented to ensure the long-term financial stability of the funds bear a full hearing and discussion. However, I am concerned that they may not reasonably balance the interests of the many stakeholders in our operation of public parking in our Central Business Districts. Executive staff has also been developing options to address this issue. We look forward to bringing these options to the discussion of the OLO report.

Thank you again for the opportunity to review the draft report and present our comments. You and your staff have done a highly commendable job of delineating the multiple issues that impact the future fiscal stability of the PLD enterprise funds. We look forward to working with you and the Council to ensure the future long-term stability of the funds.

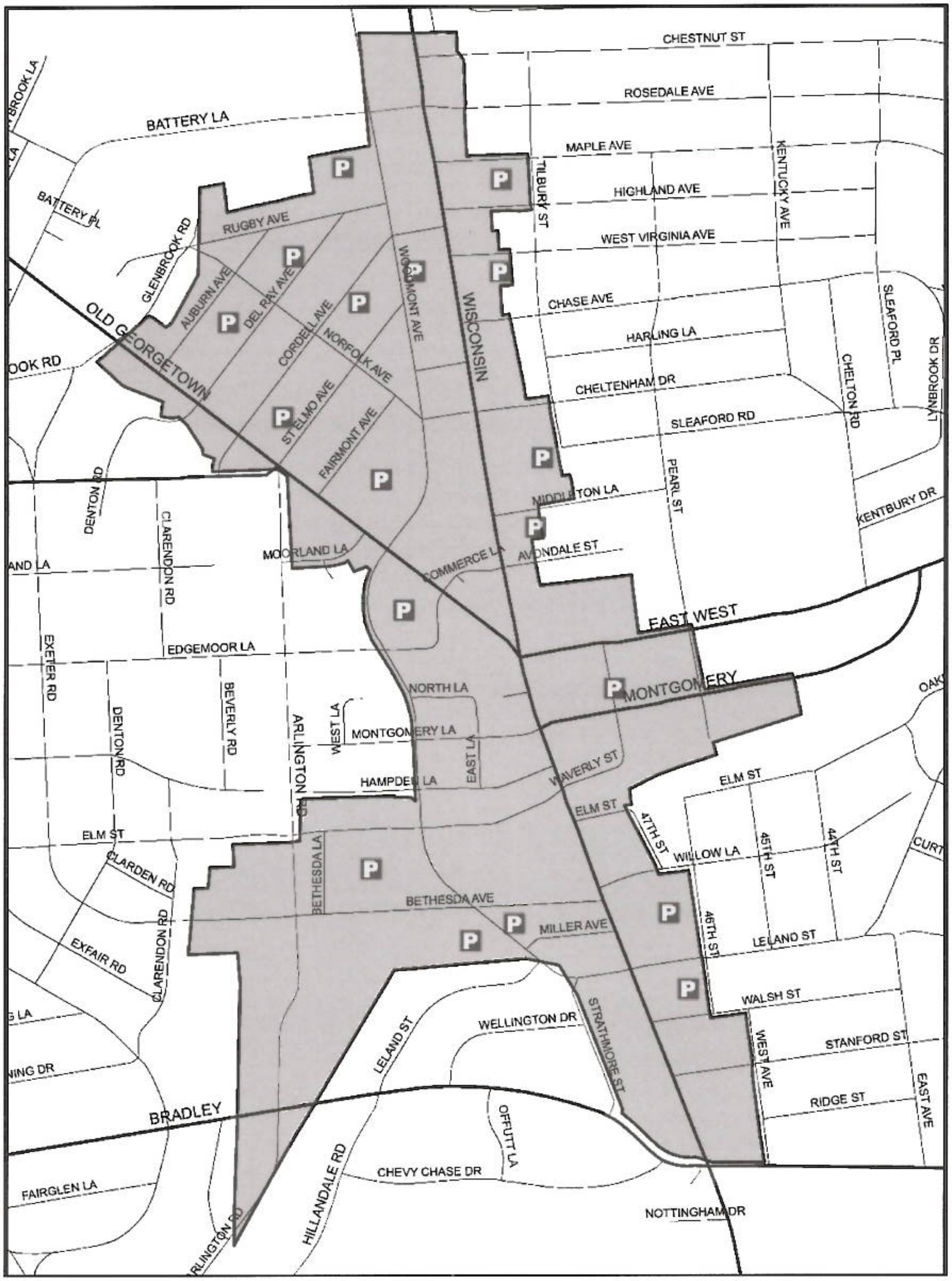
TLF:rs

cc: Fariba Kassiri, Assistant Chief Administrative Officer
Bonnie Kirkland, Assistant Chief Administrative Officer
Jennifer Hughes, Director of the Office of Management and Budget
Joseph Beach, Director, Department of Finance
Al Roshdieh, Acting Director, Department of Transportation

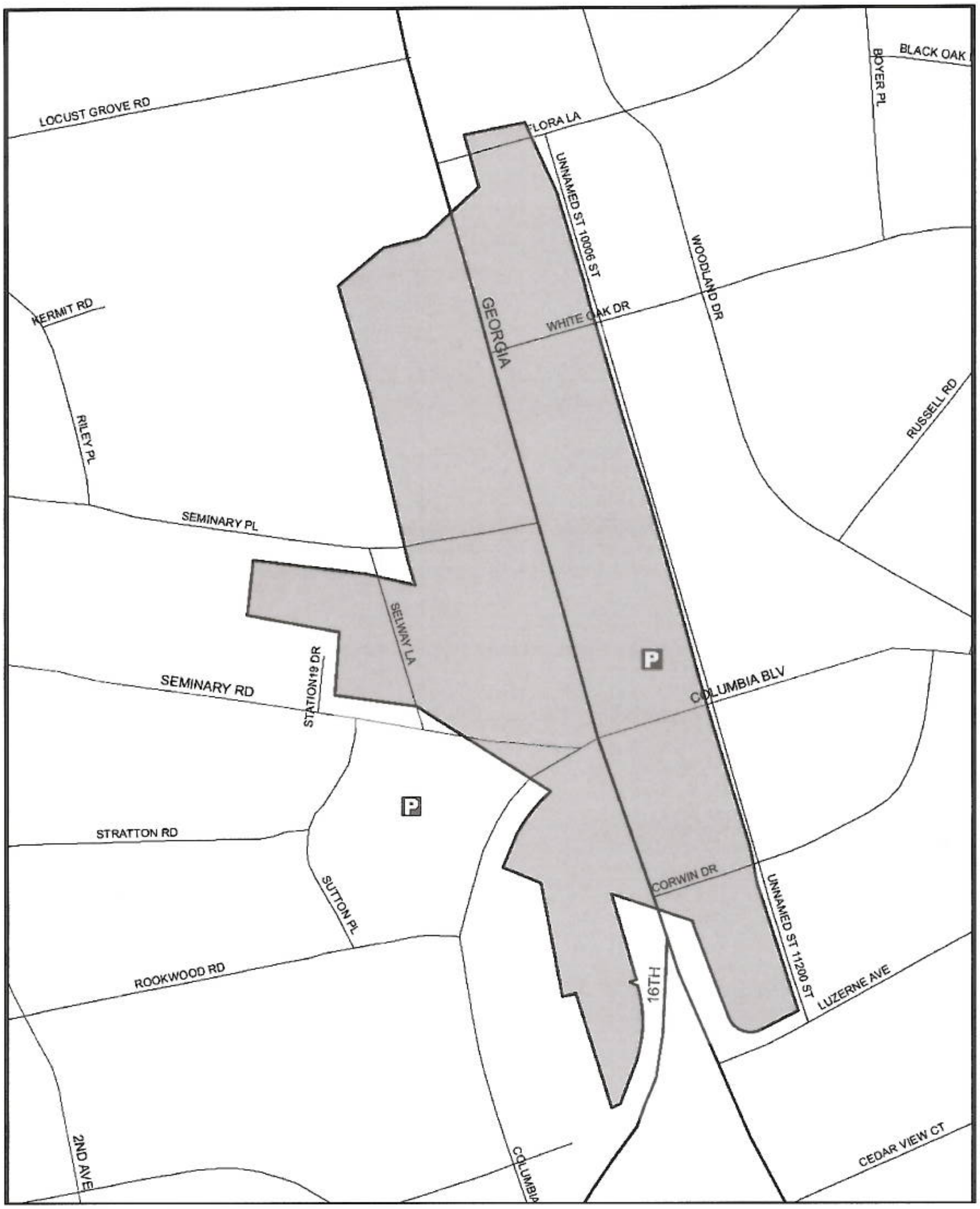
Appendix A

Maps of the Parking Lot Districts

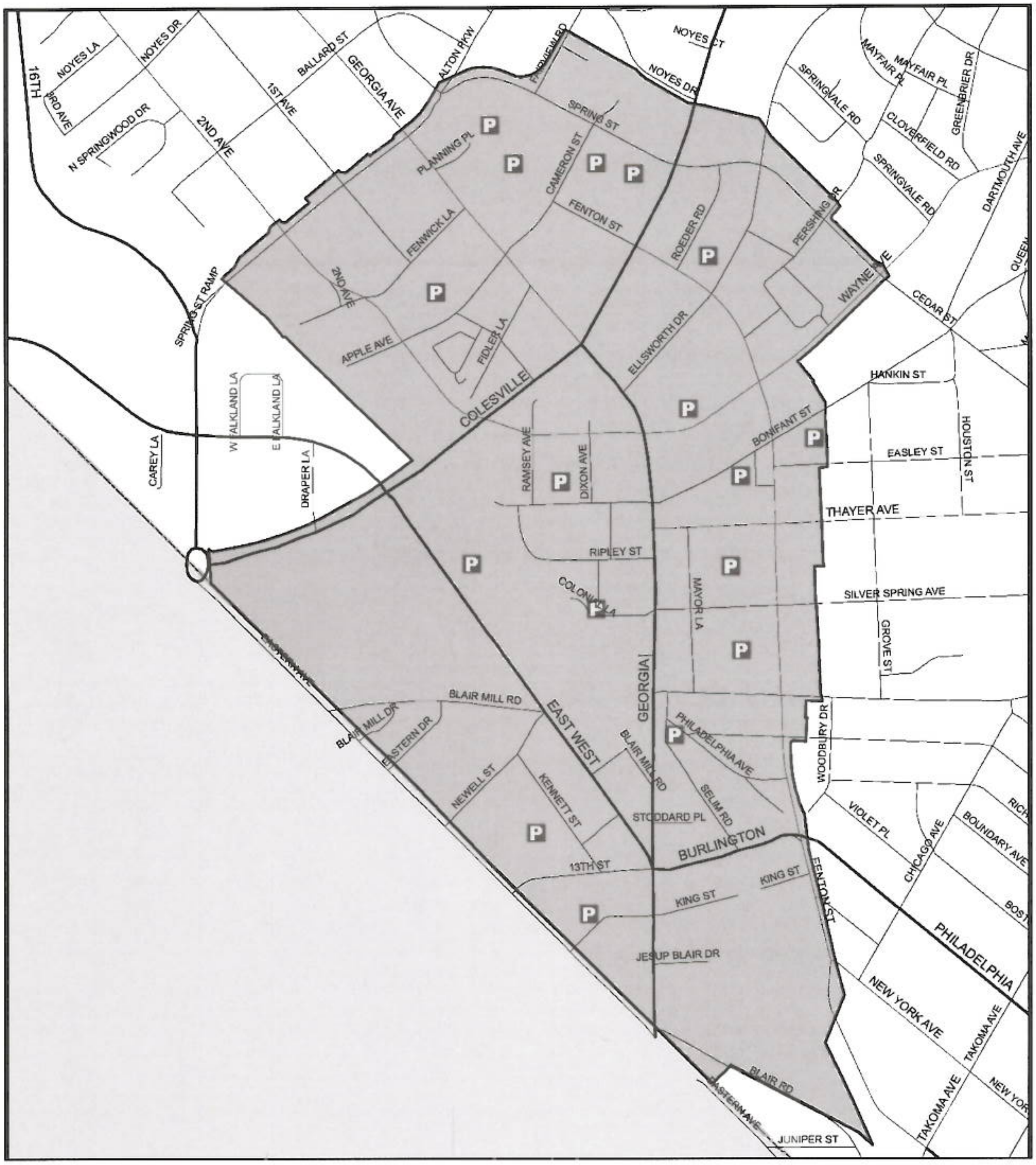
Bethesda Parking Lot District



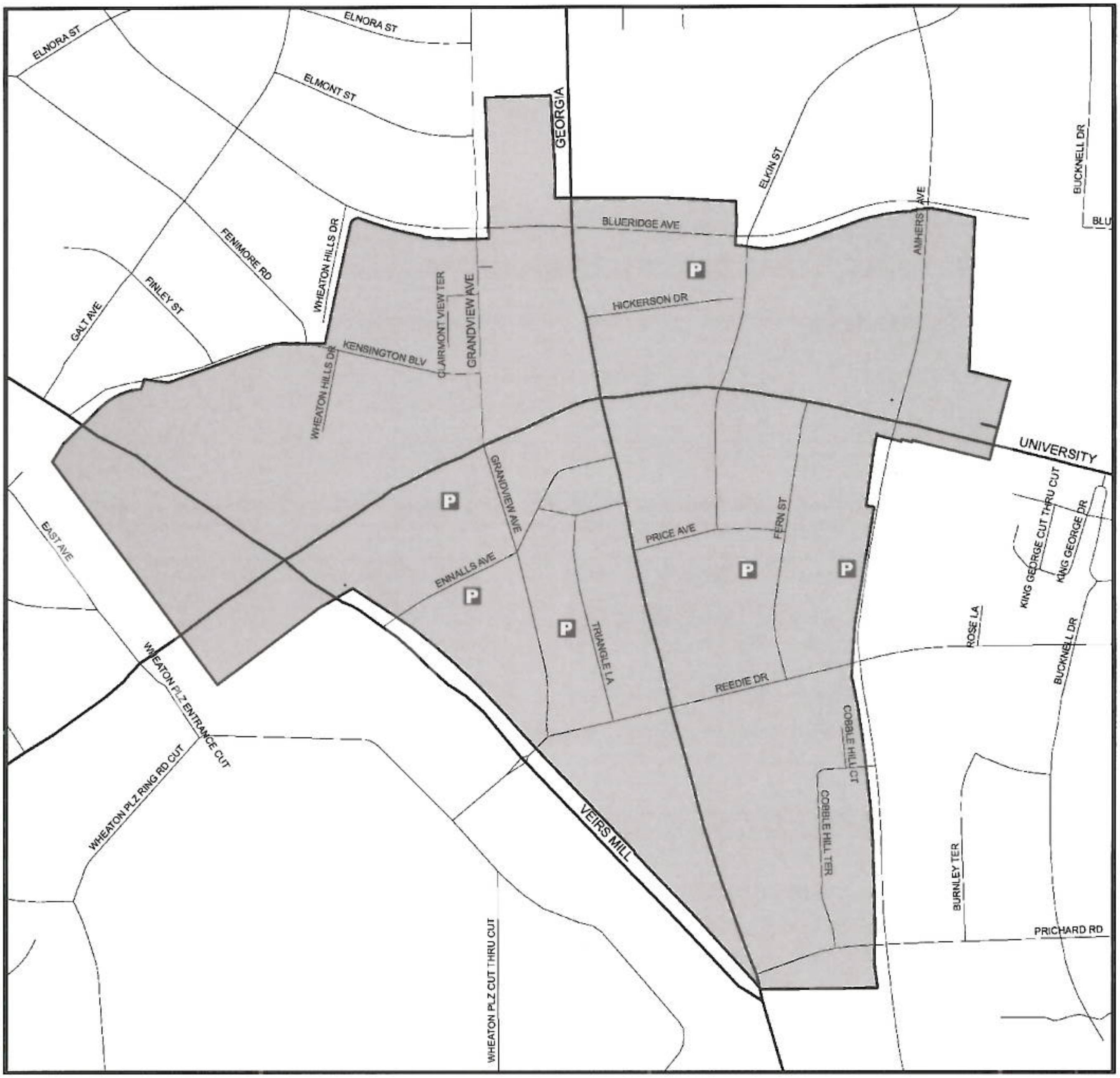
Montgomery Hills Parking Lot District



Silver Spring Parking Lot District



Wheaton Parking Lot District



Appendix B

October 2002 Executive Branch Memo

On Parking Lot District

Fund Balance Policy

OFFICE OF MANAGEMENT AND BUDGET

Douglas M. Duncan
County Executive

Robert K. Kendal
Director

MEMORANDUM

October 23, 2002

TO: Isiah Leggett, Chair
Transportation and Environment Committee

FROM: Timothy L. Firestine, Director
Department of Finance

Albert J. Genetti Jr., Director
Department of Public Works and Transportation

Robert K. Kendal, Director
Office of Management and Budget

SUBJECT: **Policy Statement** – Parking District Fund Balance[1]

This memorandum is intended to clarify the fund balance policies of the Parking District Enterprise Funds. As explained below, there are several sources of these policies including local law, revenue bond covenants, and policies adopted within the Executive branch.

LOCAL LAW

The County Code requires that each of the parking district funds: 1) maintain separate financial accounts and that any balance in the account at the end of the fiscal year be carried over to the next fiscal year; and 2) have sufficient funds to pay its operating, debt service, and capital expenses each year. MCC 60-16(a)

BOND COVENANTS

Bond covenants apply to parking districts with outstanding revenue bond proceeds and associated debt obligations. The Silver Spring and Bethesda parking districts have outstanding debt obligations, Wheaton and Montgomery Hills do not. While not necessarily a fund balance requirement, bond covenants do require that the district maintain a minimum bond coverage ratio of 125 percent. This

[1] For the purposes of this memorandum the terms "fund balance" and "cash balance" will be equivalent. The term "fund balance" is used in the bond covenants to refer to a fund's "cash balance". Cash balance and fund balance have different definitions under Generally Accepted Accounting Principles (GAAP).

means that the net revenues of the district (current revenues less current expenses) must exceed debt service by at least 25 percent. The bond coverage ratio has been inserted into the attached Fiscal Plan for the Bethesda Parking District on line 64.

Bond covenants also require that funds be deposited in restricted and unrestricted reserve accounts. An excerpt from the Official Statement for the May 2002 Parking Revenue Bond refunding is attached for additional information. Restricted accounts must be fully funded to levels prescribed by the bond covenants. The unrestricted fund balance is referred to as the General Purpose Account (GPA) in the bond covenants. Fund balance policies are most applicable to the unrestricted fund balances because the amounts in the restricted fund balances are regulated by the County's agreement with bondholders in the bond covenants.

INTERNAL POLICY

The policy used within the Executive Branch for several years is that the unrestricted fund balance (or GPA) should be maintained at a level that is at least equal to 50 percent of the projected operating expenses for the subsequent fiscal year. This policy has served the County well in ensuring the parking districts have and will continue to satisfy operating and capital obligations and maintain certain levels of transfers to other funds. In addition to meeting the Parking Districts' financial obligations, the Parking Districts have financially supported transportation management programs and urban maintenance activities. The policy has also provided adequate time to identify the need for and to analyze changes in the rate structure for parking fees, fines and taxes. The restricted and the unrestricted fund balances are shown on lines 54 and 55 of the attached Fiscal Plan for the Bethesda Parking District.

To ensure compliance with the foregoing policies, the Department of Public Works and Transportation and the Office of Management and Budget use a six-year planning horizon to identify emergent issues in the Parking Districts, some of which do not require immediate solutions. These issues can include identifying projected trends in declining fund balances, the potential need for rate adjustments or expenditure reductions to maintain adequate fund balance, and continued future compliance with local law, bond covenants, and internal policies.

These policies have served the County well and will continue to do so, as evidenced by the financial health of the parking districts and maintaining the insured AAA revenue bond rating.

RKK:wpm

Attachments: Montgomery County Code 60-16(a)
Fiscal Plan for the Bethesda Parking District
Extract of Bond Official Statement Dated May 10, 2002

cc: Marilyn Praisner, Chair, Management and Fiscal Policy Committee
Jennifer E. Barrett, Chief Operating Officer, Department of Finance
Glenn Orlin, Deputy Staff Director, County Council
Thomas D. Huff, Chief of Parking Management Section, DPWT
Joseph F. Beach, Operating Budget Coordinator, OMB